



Financial statements for the year ended 31/12/2014

A large graphic featuring a blue grid background with glowing blue circuit lines and dots. The text 'Semantic Intelligence' is centered in a bold, white, sans-serif font with a slight shadow effect.

Semantic Intelligence

1. Financial statements for the year ended 31/12/2014
2. Explanatory notes to the financial statements for the year ended 31/12/2014
3. Report on operations accompanying the financial statements for the year ended as at 31/12/2014
4. Independent Auditors' Report
5. Report of the Board of Statutory Auditors



Financial statements for the year ended 31/12/2014



Companies' Register No. 02608970360
 Rea (Economic and Administrative Index) No. 212386

EXPERT SYSTEM SPA

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in

Financial statements for the year ended 31/12/2014

Balance sheet - assets	31/12/2014	31/12/2013
A) Subscribed capital, unpaid		
(of which already called)		
B) Fixed assets		
<i>I. Intangible assets</i>		
1) Start-up and expansion costs	588,173	12,031
2) Costs of research, development and advertising	3,994,151	2,380,534
3) Industrial patent and intellectual property rights	21,562	24,001
4) Concessions, licences, trademarks and similar rights	4,214	1,796
5) Goodwill	20,066	26,755
6) Fixed assets in progress and payments on account		
7) Other	10,940	17,325
	4,639,106	2,462,442
<i>II. Tangible assets</i>		
1) Land and buildings	395,999	407,087
2) Plant and machinery	26,231	5,407
3) Industrial and commercial equipment		
4) Other assets	248,108	193,616
5) Fixed assets in progress and payments on account		
	670,338	606,110
<i>III. Financial</i>		
1) Equity investments in:		
a) subsidiaries	47,392	1,133,651
b) associates	281,673	
c) parent companies		
d) other companies	59,138	9,138
	388,203	1,142,789
2) Receivables		
a) due from subsidiaries		
- within 12 months		
- after 12 months		
b) due from associates		

- within 12 months		
- after 12 months		
c) due from parent companies		
- within 12 months		
- after 12 months		
d) due from others		
- within 12 months		
- after 12 months		
3) Other securities		
4) Treasury shares (total nominal value)		
		388,203
		1,142,789
Total fixed assets		5,697,647
		4,211,341

C) Current assets*I. Inventories*

1) Raw materials and consumables		
2) Work in progress and semi-finished products		
3) Contract work in progress		1,562,783
4) Finished products and goods for resale		476,015
5) Payments on account		
		1,562,783
		476,015

II. Receivables

1) Due from customers		
- within 12 months	7,113,745	5,819,984
- after 12 months		
		7,113,745
		5,819,984
2) Due from subsidiaries		
- within 12 months	1,312,097	1,243,281
- after 12 months	2,083,781	605,082
		3,395,878
		1,848,363
3) Due from associates		
- within 12 months		
- after 12 months		
4) Due from parent companies		
- within 12 months		
- after 12 months		
4-bis) Tax receivables		
- within 12 months	30,768	139,145
- after 12 months	102,257	126,524
		133,025
		265,669
4-ter) Prepaid taxes		
- within 12 months	6,784	7,426

- after 12 months	42,608		51,801
		49,392	59,227
5) Other receivables			
- within 12 months	2,536,801		4,659,876
- after 12 months	6,283,008		4,910,136
		8,819,809	9,570,012
		19,511,849	17,563,255
III. Current financial assets			
1) Equity investments in subsidiaries		4,153,074	
2) Equity investments in associates			
3) Equity investments in parent companies			
4) Other equity investments		8,400	8,400
5) Treasury shares (total nominal value)		89,163	
6) Other securities		4,073,169	
		8,323,806	8,400
IV. Cash and cash equivalents			
1) Bank and postal deposits		4,386,192	2,957,350
2) Cheques			
3) Cash at bank and in hand		1,370	1,501
		4,387,562	2,958,851
Total current assets		33,786,000	21,006,521
D) Accruals and deferrals			
- discount on loans			
- miscellaneous	187,719		169,918
		187,719	169,918
Total assets		39,671,366	25,387,780
Balance sheet - liabilities		31/12/2014	31/12/2013
A) Shareholders' equity			
I. Share capital		219,497	144,000
II. Share premium reserve		13,768,730	1,468,843
III. Revaluation reserve			
IV. Legal reserve		40,067	28,800
V. Statutory reserves			
VI. Reserve for treasury shares in portfolio		89,163	
VII. Other reserves			
Extraordinary or optional reserve	3,711,110		3,592,196
Reserve for purchase of treasury shares			
Reserve from departures as per art. 2423 of the Italian Civil Code			

3) Payables due to shareholders for loans			
- within 12 months			
- after 12 months			
4) Payables due to banks			
- within 12 months	2,647,115		2,692,311
- after 12 months	4,381,995		4,462,615
		7,029,110	7,154,926
5) Payables due to other lenders			
- within 12 months	293,183		291,472
- after 12 months	416,608		709,791
		709,791	1,001,263
6) Payments on account			
- within 12 months	538,058		1,524,588
- after 12 months	2,828,137		1,512,933
		3,366,195	3,037,521
7) Trade payables			
- within 12 months	1,884,471		1,103,820
- after 12 months			
		1,884,471	1,103,820
8) Payables represented by credit instruments			
- within 12 months			
- after 12 months			
9) Payables due to subsidiaries			
- within 12 months			
- after 12 months	1,248		
		1,248	
10) Payables due to associates			
- within 12 months			
- after 12 months			
11) Payables due to parent companies			
- within 12 months			
- after 12 months			
12) Tax payables			
- within 12 months	1,454,606		718,443
- after 12 months			
		1,454,606	718,443
13) Payables due to social security institutions			
- within 12 months	235,348		199,194
- after 12 months			
		235,348	199,194
14) Other payables			
- within 12 months	934,723		943,140
- after 12 months			
		934,723	943,140

Total payables	15,615,492	14,158,307
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E) Accruals and deferrals

- premium on loans		
- miscellaneous	3,341,165	4,143,233
	3,341,165	4,143,233

Total liabilities	39,671,366	25,387,780
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Memorandum accounts**31/12/2014****31/12/2013****1) Risks assumed by the company**

Sureties

to subsidiaries	300,000	400,000
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies	6,952,948	3,594,100
	7,252,948	3,994,100

Endorsements

to subsidiaries		
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies		

Other personal guarantees

to subsidiaries		
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies		

Collaterals

to subsidiaries		
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies		

Other risks

receivables transferred		
other		

7,252,948 3,994,100

2) Commitments undertaken by the company**3) Third party assets held by the company**

work in progress		
property held by the company under deposit or loan for use		
property held by the company under pledge or deposit		

other

4) Other memorandum accounts

Total memorandum accounts	7,252,948	3,994,100
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Income statement	31/12/2014	31/12/2013
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A) Value of production

1) <i>Sales and service revenues</i>	10,943,137	10,608,164
2) <i>Changes in inventories of work in progress, semi-finished and finished products</i>		
3) <i>Changes in contract work in progress</i>	1,086,769	(245,498)
4) <i>Own work capitalised</i>	3,041,447	2,255,895
5) <i>Other revenues and income:</i>		
- miscellaneous	39,322	103,186
- operating grants	528,777	59,049
- capital grants (portion for the year)	509,049	339,080
	1,077,148	501,315
Total value of production	16,148,501	13,119,876

B) Costs of production

6) <i>Raw materials, consumables and goods for resale</i>	306,141	709,426
7) <i>For services</i>	6,655,742	5,111,348
8) <i>Use of third-party assets</i>	502,007	468,463
9) <i>Personnel</i>		
a) Salaries and wages	3,962,215	3,483,234
b) Social security costs	1,086,392	989,805
c) Employee severance indemnity	288,312	274,484
d) Pensions and similar charges		
e) Other costs	35,665	21,756
	5,372,584	4,769,279
10) <i>Amortisation, depreciation and write-downs</i>		
a) Amortisation of intangible fixed assets	1,512,104	956,305
b) Depreciation of tangible fixed assets	138,566	105,166
c) Other write-downs of fixed assets		
d) Write-downs of receivables included in current assets and cash and cash equivalents	41,665	36,493
	1,692,335	1,097,964
11) <i>Changes in inventories of raw materials, consumables and goods for resale</i>		

12) Provision for risks		30,000	
13) Other provisions			
14) Sundry operating expenses		80,455	47,757
Total costs of production		14,639,264	12,204,237
Difference between the value and costs of production (A-B)		1,509,237	915,639
C) Financial income and expenses			
15) Income from equity investments:			
- from subsidiaries			
- from associates			
- other			
16) Other financial income:			
a) from receivables classified as fixed assets			
- from subsidiaries			
- from associates			
- from parent companies			
- other			
b) from securities classified as fixed assets			
c) from securities included in current assets			998
d) other income:			
- from subsidiaries	26,029		23,823
- from associates			
- from parent companies			
- other	131,860		26,998
		157,889	51,819
		157,889	51,819
17) Interest and other financial expenses:			
- from subsidiaries			
- from associates			
- from parent companies			
- other	336,921		392,459
		336,921	392,459
17-bis) Exchange gains and losses		233,778	(35,833)
Total financial income and expenses		54,746	(376,473)
D) Value adjustments of financial assets			
18) Revaluations:			
a) of equity investments			
b) of non-current financial assets			
c) of securities included in current assets			
19) Write-downs:			
a) of equity investments			

b) of non-current financial assets			11,307
c) of securities included in current assets			11,307
			11,307
Total value adjustments to financial assets			(11,307)
E) Extraordinary income and expenses			
20) <i>Income:</i>			
- capital gains from disposals			
- miscellaneous	215,363		148,597
	215,363		148,597
		215,363	148,597
21) <i>Expenses:</i>			
- capital losses from disposals			
- previous years' taxes			
- miscellaneous	156,106		92,158
	156,106		92,158
		156,106	92,158
Total extraordinary items		59,257	56,439
Pre-tax result (A-B±C±D±E)		1,623,240	584,298
22) <i>Income taxes for the year – current, deferred and prepaid</i>			
a) Current taxes	552,114		365,513
b) Deferred taxes	59,753		
c) Prepaid taxes	9,835		(6,559)
d) income (expenses) resulting from compliance with tax consolidation / tax transparency			
	621,702		358,954
		621,702	358,954
23) Profit (loss) for the year		1,001,538	225,344

Chairman of the Board of Directors
Marco Varone



Explanatory notes to the financial statements for the year ended 31/12/2014



Companies' Register No. 02608970360
Rea (Economic and Administrative Index) No. 212386

EXPERT SYSTEM SPA

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in

Explanatory notes to the financial statements for the year ended 31/12/2014

Introduction

Dear Shareholders,

these financial statements, subject to your review and approval, highlight a profit for the year of € 1,001,538.

Business

The Company performs its activities in the Information Technology sector, where it is a leading developer of semantic software applications used by companies to manage information more effectively and acquire strategic knowledge from it.

All products are based on proprietary Cogito technology and offer advanced solutions for searching, organising, correlating and analysing large volumes of documents.

Through the automatic understanding of any type of text, Cogito allows companies to create value from all data and information at their disposal, increasing their competitive advantage and providing optimum support to the decision-making processes.

Significant events during the year

The following significant events occurred during the year:

On 14/02/2014, the Company was admitted to listing on AIM Italia – Mercato Alternativo del Capitale (Alternative Capital Market) and its shares were traded from 18/02/2014.

AIM (Alternative Investment Market) Italia is the market regulated by Borsa Italiana (Italian Stock Exchange) dedicated to the most dynamic and competitive SMEs with high growth potential in Italy. The market was created at the beginning of 2012 from an amalgamation of the AIM Italia and MAC markets, with a formula based on know-how acquired thanks, on the one hand, to 15 years of experience on the UK AIM, and, on the other, on the specific requirements of the Italian business system.

For the purpose of listing on the AIM Italia stock market, on 09/01/2014, by means of the report of the extraordinary shareholders' meeting, drafted by notary Rolando Rosa, index no. 117915 folder 18663, the following transactions were resolved:

- A) Elimination of the par value of the shares outstanding pursuant to art. 2346, par. 3 of the Italian Civil Code.
- B) Bonus share capital increase for € 6,000.04, through the charging of part of the extraordinary reserve to share capital, with the issuing of 600,004 shares with no par value.
- C) Splitting of the outstanding shares.
- D) Increase in share capital with exclusion of the option right in favour of the contribution of Admantx Spa (subsidiary) shares by IMI Fondi Chiusi società di gestione del risparmio Spa.
- E) Increase in share capital up to a maximum of € 10,000,000 with the issuing of a maximum of 6,000,000 shares.

In implementation of the previous items A, B and C of the resolution of the extraordinary shareholders' meeting on 09/01/2014, the share capital of Expert System Spa totalled € 150,000.00, split into 15,000,000 shares with no par value.

On 05/02/2014, the company carried out, pursuant to point D above, the share capital increase with exclusion of the option right in favour of the contribution of Admantx Spa shares by IMI Fondi Chiusi società di gestione del risparmio Spa.

This transaction involved, for Expert System Spa, a share capital increase of € 13,996.80 plus an increase in the share premium reserve of € 2,505,427.20. This share capital increase was paid up through the contribution of 193,997 class B shares of the company Admantx Spa equal to a stake of around 22.754% in share capital, owned by IMI Fondi Chiusi società di Gestione del risparmio Spa

The contribution of Admantx Spa shares was made through the drafting of an appraisal in accordance with art. 2343 ter, par. 2 of the Italian Civil Code.

Following the contribution, the company Expert System Spa issued 1,399,680 new shares of no par value and increased share capital by € 13,996.80.

Expert System Spa was listed via an OPVS (Public Sale and Subscription Offer). The placement price was € 1.80 per share.

On 18/02/2014, on conclusion of the initial public offering, the sums collected came to € 9,849,960, of which € 55,500.00 intended for the share capital increase and € 9,794,460 for the share premium reserve. In respect of the placement, a total of 5,550,000 new shares with no par value were issued.

After said subscription, resolved and paid-up share capital stood at € 219,496.80, split into 21,949,680 shares of no par value.

Graph showing share performance from IPO (18/02/2014) to 26/05/2015 compared with FTSE AIM ITALIA



Last Price	Ord	Trend	Ord	ITAIM	Related trend	
26/05/2015	2.279	-2Y	0%	-2Y	1%	-1%
Change (-2 years)	Ord	-1Y	13%	-1Y	-8%	21%
MAX.	2.464	-3M	0%	-3M	5%	-5%
MIN.	1.723	-1M	2%	-1M	-2%	4%

With regard to technology, by contrast, a number of new products were presented including, for example, a COGITO integration with the Microsoft product Sharepoint for the classification and intelligent tagging of documents contained in this platform. As regards international recognition, we should point out the confirmation and improvement of our position in the "Gartner Magic Quadrant 2014 for Enterprise Search" which now ranks Expert System in the top 10 companies in the world in terms of company document search products.

As regards development of the company's presence on foreign markets, a new office was opened in Palo Alto, in the Silicon Valley in California, in order to achieve a constant presence at the heart of the Information Technology world, as a "technological antenna" for the company and for developing commercial relations with the key companies in that area. The finalisation of a partnership with Cloudera, one of the most important companies in the world in the provision of cloud services, already constitutes the first significant benefit of this initiative, just a few months after it was established.

Expert System Cogito Ltd was established on 24/06/2014 with headquarters in London, wholly-owned, thus extending Expert's presence abroad even further.

Via Expert System Cogito Ltd, Expert System Spa sets itself the objective of strengthening its presence on the UK market, particularly strategic for sectors such as Finance, Oil & Gas and Publishing where the company has already gained great experience. Coverage of the UK also facilitates the consolidation of different partnerships, launched with major technology and consultancy companies, and constant and direct contact with customers.

On 11 December 2014, Expert System Spa established a new company together with Elettronica Spa, known as CY4Gate Srl with headquarters in London, in which Expert System holds a 30% interest.

CY4Gate will use the software and know how developed by Expert System's Intelligence Division, and the electronic defence systems and expertise of Elettronica, so as to offer cyber defence electronics and intelligence products and services to government organisations in the security sector.

CY4Gate also entered into a number of contracts with Expert System for an overall value of € 3 million; this agreement, which can be classified as a transaction of greater importance as per applicable legislation, was subject to approval by the Related Parties Committee and the Board of Directors of Expert System.

Again within the sphere of Expert System's internationalisation strategy, on 21 November 2014 Expert System Iberia S.L.U. was established, wholly-owned and with headquarters in Barcelona, Spain. Subsequently, on 23 December 2014 Expert System - via its subsidiary Expert System Iberia S.L.U. - acquired the ICM (Intelligent Content Management) and iLab – Research Center Innovation - division of iSOCO, an international company with headquarters in Barcelona with business relations launched in South America, operating in the field of software design based on semantic technology for the handling of non-structured information dedicated to a vast range of industrial services with particular reference to the banking, governmental and pharmaceutical sector.

In particular, iLab is the laboratory dedicated to research and development, a benchmark in the sphere of international research in the field of artificial intelligence and semantic technology.

Via Expert System Iberia, with headquarters in Barcelona and Madrid, the company thereby strengthens its presence in Europe and launches new commercial relationships in South America.

Significant events after the close of the year

On 27 May 2015, the BoD resolved the acquisition of Temis, a company which has a strong presence in France, Germany, the UK and the USA and which boasts technology for Big Data in the Media and Publishing, Healthcare and Intelligence sectors which also includes a number of semantic solutions developed *ad hoc* by said Temis.

As a result of the Temis Acquisition Transaction and the investments aimed at creating synergies and integrations between the Expert Group, Temis and the investee companies of the latter, it is envisaged that Expert System may become the main European operator in its reference sector endowing itself, among other aspects, with additional managerial abilities difficult to find on the market.

Drafting criteria

These financial statements conform to the provisions of articles 2423 *et seq.* of the Italian Civil Code, as shown in these explanatory notes, drafted in accordance with art. 2427 of the Italian Civil Code, which constitute, pursuant to and in accordance with art. 2423, an integral part of the financial statements.

Financial statement values are stated in Euro, with the relative amounts rounded up. Any rounding differences have been indicated in the item "Euro rounding reserve", included under shareholders' equity items and "Euro rounding" in the item "extraordinary income and expenses in the income statement".

Pursuant to art. 2423, par. 5 of the Italian Civil Code, the explanatory notes have been drafted in Euro.

Measurement criteria

(Ref. art. 2427.1.1 of the Italian Civil Code and OIC 12 accounting standard)

The criteria used to draft the financial statements for the year ended 31/12/2014 are the same as those used in the previous year, particularly as regards the valuations and continued use of the same standards.

The valuation of items in the financial statements is based on the general principles of prudence and accrual accounting, in the assumption of the company as a going concern, also taking into account the economic function of the asset or liability considered.

The application of the prudence principle involved the individual valuation of the individual asset and liability items, to avoid offsetting between losses to be recognised and profits not to be recognised given unrealised.

In compliance with the accrual principle, the effect of transactions and other events has been accounted for and allocated to the year in which said transactions and events refer, and not to the one in which the associated cash

flows occur (collections and payments).

Continued application of the valuation criteria over time is a key element for the purposes of comparing the company's financial statements from different years.

The valuation of assets or liabilities, by taking into account their economic function, considering that it embodies the principle of prevalence of substance over form, mandatory where not expressly contradicted by other specific regulations governing financial statements, enables transactions to be reported according to the economic situation underlying the formal aspects.

Exceptions

(Ref. art. 2423.4 of the Italian Civil Code)

No exceptional cases were identified that required the use of the exceptions set forth under art. 2423.4 of the Italian Civil Code.

In particular, the following measurement criteria were adopted to draft the financial statements.

Fixed assets

Intangible assets

These are recorded at their historical acquisition cost and stated net of amortisation applied over the years and booked directly to the individual items.

Start-up and expansion and research & development costs with long-term benefits were recognised under assets with the consent of the Board of Statutory Auditors and are amortised over a period of 5 years.

Under research & development costs, the expenses for personnel employed and outside technical consultancy used in research and development activities were capitalised for a total of € 3,041,447, amortised over a period of 5 years.

Goodwill, deriving from the reverse merger of ES Srl, already recorded in previous years under assets with the consent of the Board of Statutory Auditors for an amount equal to the merger deficit, continues to be amortised over a period of 5 years.

Industrial patent and intellectual property rights and trademarks are amortised according to an annual rate of 10%.

Improvements to third-party assets are amortised according to rates that depend on the duration of the contract.

If, regardless of the amortisation already accounted for, impairment is recorded, the fixed asset is written down accordingly. If the reasons for the write-down no longer exist in subsequent years, the original value is written back, adjusted solely for amortisation.

Tangible assets

These are booked at acquisition cost and adjusted by the corresponding accumulated depreciation.

The book value takes account of additional expenses and costs incurred in using the fixed asset, deducting trade and cash discounts of any significant amount from the cost.

Depreciation charges, booked to the income statement, were calculated on the basis of the type of use and technical-economic life of the assets, based on the residual useful life criteria, which we believe to be fully represented by the following rates, unchanged with respect to the previous year:

- buildings: 3%
- plant and machinery: 20%
- vehicles: 25%
- mopeds: 25%
- furniture and fittings: 12%
- electronic machines: 20%

If, regardless of the depreciation already accounted for, impairment is recorded, the fixed asset is written down accordingly. If the reasons for the write-down no longer exist in subsequent years, the original value is written back, adjusted solely for depreciation.

Receivables

These are stated at their presumed realisable value. The adjustment of the nominal value of receivables into line with the presumed realisable value is obtained using the appropriate bad debt provision, taking into consideration general economic and industry conditions and country risk.

Payables

These are recorded at their nominal value, amended in the event of returns or billing adjustments.

Accruals and deferrals

Accruals and deferrals were calculated on an accruals basis during the year.

For multi-year accruals and deferrals, the conditions that led to their original recognition were verified, where necessary, applying the necessary changes.

Warehouse inventories

Contract work in progress is recorded on the basis of the percentage of completion/stage of progress criterion: costs, revenues and the job profit are recognised on the basis on the progress of production activities. For the application of this criterion the hours worked method is adopted.

Securities

Securities recorded under current assets are valued at the lower of purchase cost and the realisable value taken from market trends, by applying the specific cost method.

Reference was made to the Milan Stock Market for comparing the cost. With regard to unlisted securities, reference was made to the listings of similar securities (at face value adjusted on the basis of the market rate of return).

Equity investments

Equity investments in subsidiaries and associates, recorded under non-current financial assets, are valued at purchase or subscription cost.

The equity investments recognised under fixed assets represent a long-term and strategic investment by the company.

The equity investments recorded at purchase cost were not written down as they did not suffer impairment.

The equity investments recorded under current assets, given they do not constitute permanent investments, are valued at the lower of purchase cost the realisable value taken from market trends, by applying the specific cost method.

Reference was made to the Milan Stock Market for comparing the cost.

Treasury shares

Treasury shares recorded under current assets, since they are destined to be used within the sphere of the stock grant plan, have been valued at purchase cost or the realisable value taken from market trends, whichever is the lower.

Provisions for risks and charges

These are set aside to cover losses or payables which are certain or likely to exist but, in respect of which, the amount or date of occurrence could not be determined at year-end.

In measuring these provisions the general principles of prudence and accrual accounting were observed, and no generic risk provisions were set up without economic justification.

Contingent liabilities were recorded in the financial statements and booked to provisions given deemed likely and given that the amount can be reasonably estimated.

Employee Severance Indemnity Provision

This refers to the actual amounts accrued due to employees in compliance with law and the applicable employment contracts, in consideration of any form of continuous pay.

Income taxes

Income taxes are allocated on an accrual basis;

- the allocations for taxes paid or to be paid for the year, calculated according to the applicable rates and regulations;
- the amount of deferred or prepaid taxes in relation to the temporary differences that have arisen or been eliminated in the year.

Deferred and prepaid IRES (corporate income tax) is calculated on the temporary differences between the values of assets and liabilities determined in accordance with statutory criteria and the corresponding tax values with exclusive reference to the company.

Current, deferred and prepaid IRAP (regional business tax) is calculated with exclusive reference to the company.

Revenue recognition

Revenues from product sales are recognised at the moment of the transfer of ownership, which normally corresponds to the delivery or shipment of the goods.

Financial revenues and those deriving from the provision of services are recognised on an accrual basis.

Revenues and income and costs and expenses relating to currency transactions are determined at the current exchange rate on the date the transaction is completed.

Criteria for the translation of amounts stated in foreign currency

Receivables and payables originally stated in foreign currency, recorded on the basis of exchange rates applicable on the date on which they arose, are brought into line with current exchange rates at year-end.

In detail, the assets and liabilities which represent the monetary balance sheet elements in currency (*receivables, payables, cash and cash equivalent, accrued income and expenses, debt securities*) are recognised at the spot exchange rate as of the year end date and the related exchange gains and losses are respectively credited and charged to the income statement under item 17 *bis* Exchange gains and losses.

By contrast, with regard to the non-monetary assets and liabilities in foreign currency (*tangible and intangible fixed assets, equity investments and other securities which grant the right to participate in the risk capital of the issuer, inventories, advances for the purchase and sale of goods and services, prepaid expenses and deferred income*) are recognised at the exchange rate in force at the time of their acquisition or the lower rate as of the year end date, only if the negative changes have led to a permanent loss in value (impairment) of said fixed assets.

Guarantees, commitments, third-party assets and risks

The risks relating to personal guarantees or collateral granted for third-party payables were reported in the memorandum accounts for an amount equal to the guarantee given; the amount of the third-party payable at the reporting date, if lower than the guarantee given, is indicated in these explanatory notes.

Employment figures

(Ref. art. 2427.1.15 of the Italian Civil Code)

The average company workforce, broken down by category, underwent the following changes with respect to the previous year.

Workforce	31/12/2014	31/12/2013	Changes
Middle management	14	13	1
Employees	101	95	6
	115	108	7

The national labour contract applied is the 2011 one for the trade sector.

Assets

B) Fixed assets

I. Intangible fixed assets

Balance at 31/12/2014	Balance at 31/12/2013	Changes
4,639,106	2,462,442	2,176,664

Total changes in intangible fixed assets

(Ref. art. 2427.1.2 of the Italian Civil Code)

Description of costs	Value 31/12/2013	Increases in the year	Of which capitalised expenses	Write-downs	Amortisation in the year	Other decreases in the year	Value 31/12/2014
Start-up and expansion	12,031	724,865			148,723		588,173
Research, development and advertising	2,380,534	3,041,447			1,341,393	86,437	3,994,151
Industrial patent rights	24,001	5,766			8,205		21,562
Concessions, licences, trademarks	1,796	3,127			709		4,214
Goodwill	26,755				6,689		20,066
Other	17,325				6,385		10,940
	2,462,442	3,775,205			1,512,104	86,437	4,639,106

Previous revaluations, amortisation and write-downs

(Ref. art. 2427.1.2 of the Italian Civil Code)

The historical cost at the beginning of the year is made up as follows:

Description of costs	Historical cost	Accumulated amortisation	Revaluations	Write-downs	Net value
Start-up and expansion	50,407	38,376			12,031
Research, development and advertising	9,539,019	7,158,485			2,380,534
Industrial patent rights	570,169	546,168			24,001
Concessions, licences, trademarks	14,085	12,289			1,796
Goodwill	33,444	6,689			26,755
Other	38,464	21,139			17,325
	10,245,588	7,783,146			2,462,442

Composition of start-up and expansion costs, research and development costs and advertising expenses

(Ref. art. 2427.1.3 of the Italian Civil Code)

The breakdown of start-up and expansion costs and research and development costs, recorded with the consent of the Board of Statutory Auditors, and the reasons for their recognition, are shown below.

Start-up and expansion costs

Description of costs	Value 31/12/2013	Increases in the year	Decreases in the year	Amortisation in the year	Value 31/12/2014
Merger	10,367			3,494	6,873

Admission to trading on the stock exchange	1,664	724,865	145,229	581,300
	12,031	724,865	148,723	588,173

Research and development costs

Description of costs	Value 31/12/2013	Increase in the year	Decrease in the year	Amortisation in the year	Value 31/12/2014
Increase in production	2,380,534	3,041,447	86,437	1,341,393	3,994,151
	2,380,534	3,041,447	86,437	1,341,393	3,994,151

The costs recorded are reasonably correlated to long-term benefit over several years, and are systematically amortised in relation to their residual useful life.

The increase realised in 2014 totalled € 3,041,447, represented by the capitalisation carried out in 2014 of costs relating to personnel employed and costs for external consultancy used in research and development activities.

Details are provided below on the research and development costs capitalised, broken down by relevant project (amounts in €):

Type of projects capitalised in 2014	Cost per project
analysis of cultural asset contents	214,074
analysis of social contents	121,723
automatic generation technology	464,017
technologies for the recognition of natural language interaction	1,142,582
technologies for automatic learning	97,072
technologies for intelligence	767,128
technologies for search engines	234,851
Overall total	3,041,447

II. Tangible fixed assets

Balance at 31/12/2014	Balance at 31/12/2013	Changes
670,338	606,110	64,228

Land and buildings

(Ref. art. 2427.1.2 of the Italian Civil Code)

Description	Amount	
Historical cost	456,980	
Depreciation of previous years	(49,893)	
Balance at 31/12/2013	407,087	of which land totalling € 87,400
Acquisition during the year	(1)	
Depreciation in the year	(11,087)	
Balance at 31/12/2014	395,999	of which land totalling € 87,400

Based on an accurate application of accounting standard OIC 16, and also following a review of the estimate of the useful life of instrumental properties, we separated the portion of the cost relating to the plots of land of the above.

The value assigned to these areas was identified on the basis of a flat-rate estimate criterion which allows the allocation of the unit cost, deemed consistent at a rate of 20% of the cost of the property net of capitalised ancillary costs and any revaluations carried out.

In relation to the value of the aforementioned assets, depreciation charges relating to the value of the aforesaid land were no longer allocated, deeming them, on the basis of updated company estimates, to be property assets not subject to degradation and with an unlimited useful life.

Plant and machinery

(Ref. art. 2427.1.2 of the Italian Civil Code)

Description	Amount
Historical cost	187,550
Depreciation of previous years	(182,143)
Balance at 31/12/2013	5,407
Acquisition during the year	25,941
Depreciation in the year	(5,117)
Balance at 31/12/2014	26,231

Industrial and commercial equipment

(Ref. art. 2427.1.2 of the Italian Civil Code)

Description	Amount
Historical cost	1,558
Depreciation of previous years	(1,558)

Other assets

(Ref. art. 2427.1.2 of the Italian Civil Code)

Description	Amount
Historical cost	1,128,403
Depreciation of previous years	(934,787)
Balance at 31/12/2013	193,616
Acquisition during the year	176,853
Depreciation in the year	(122,361)
Balance at 31/12/2014	248,108

Grants related to assets

The company receives grants from various bodies (European Community according to the methods of the Seventh Framework Programme, Horizon 2020, Ministry of Education, Universities and Research, Ministry of Economic Development and other institutions) aimed at financing research and development projects.

These grants are classified under grants related to assets given contributions targeted at financing long-term investments. As regards the accounting of these grants, the method envisaged by OIC 16 was chosen, involving the recognition of said grants in proportion to the amortisation of the costs of R&D to which they refer.

III. Non-current financial assets

Balance at 31/12/2014	Balance at 31/12/2013	Changes
388,203	1,142,789	(754,586)

Equity investments

Description	31/12/2013	Increase	Decrease	31/12/2014
Subsidiaries	1,133,651	47,392	1,133,651	47,392
Associates		281,673		281,673
Other companies	9,138	50,000		59,138
	1,142,789	379,065	1,133,651	388,203

Changes in equity investments in subsidiaries are justified as follows:

- the reduction is due to the reclassification of the equity investment in Admantx Spa under current assets and no longer under long-term assets. The reason for this differing classification with respect to the previous year can be found in the changed purpose for the holding of the equity investment by Expert System Spa.

The equity investment in Admantx Spa as at 31/12/2014 is no longer considered functional with regard to the group's objectives and in fact, since the last quarter of 2014, scouting activities have been underway via a specialised advisor for the purpose of identifying a strategic partner, of an industrial and/or financial nature, to whom a significant or total holding in the company may be transferred, which permits Admantx to more fully express its potential on a market such as that of ADTech which has features and methods very different from the Expert System business model.

- the increase is due to the purchase of new controlling equity investments in the companies Expert System Cogito Ltd, with headquarters in London (UK) for € 1,248, and Expert System Iberia S.L.U., with headquarters in Barcelona (Spain) for € 46,144.

Information is provided below on the equity investments held directly or indirectly through subsidiaries, associates (art. 2427.1.5 of the Italian Civil Code).

With regard to the subsidiaries Expert System USA Inc. and Expert System Cogito Ltd, the figures refer to the financial statements as at 31/12/2014, which are the last set of approved statements. With regard to the subsidiary Expert System Iberia S.L.U., it was not possible to obtain the figures from the last set of approved financial statements because they were not yet closed as of the date of drafting of this document.

The change in equity investments in associates concerns the purchase of the equity investment in Cy4Gate Srl with headquarters in Rome (Italy) for € 281,673. With regard to the financial statements of the associate Cy4Gate Srl, you are hereby informed that the company was established on 11/12/2014 and has 31/12/2015 as the closure date for the first accounting period, therefore the related figures are not available.

The change in equity investments in other companies concerns the purchase of the equity investment in Buzzoole Srl, with headquarters in Via Giovanni Paolo II 100, Fisciano (SA), equating to 1.852% of the share capital.

The item "equity investments in other companies" is made up of the following:

- equity investment in Okkam Srl € 1,000
- Conai for € 5
- ICT Sud € 133
- Semantic Valley € 2,000
- Confidimpresa € 5,000
- Trentino technology district € 1,000
- equity investment in Buzzoole Srl € 50,000

Subsidiaries

Name	City or Foreign country	Share capital	Shareholders' equity	Profit/Loss	% held	Book value	Reserves of profits/capital subject to repayments or restrictions or deferred tax	Fair Value
EXPERT SYSTEM USA INC	Delaware USA	1	(1,583,003)	(877,643)	100	1		
EXPERT SYSTEM COGITO Ltd	London UK	1,284	(1,035)	(7,107)	100	1,248		
EXPERT SYSTEM IBERIA S.L.U.	Barcelona Spain	3,000			100	46,144		

Associates

Name	City or Foreign country	Share capital	Shareholders' equity	Profit/Loss	% held	Book value	Reserves of profits/capital subject to repayments or restrictions or deferred tax	Fair Value
CY4GATE SRL	ROME	300,000	3,100,000		30	281,673		

No non-current financial assets were recorded in the financial statements for values higher than their fair value.

C) Current assets**I. Inventories**

Balance at 31/12/2014	Balance at 31/12/2013	Changes
1,562,783	476,015	1,086,768

This includes contract work in progress, recorded on the basis of the percentage of completion criterion: costs, revenues and the job profit are recognised on the basis on the progress of production activities. For the application of this criterion the hours worked method is adopted.

II. Receivables

Balance at 31/12/2014	Balance at 31/12/2013	Changes
19,511,849	17,563,255	1,948,594

The balance is broken down according to maturities (art. 2427.1.6 of the Italian Civil Code)

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total
Due from customers	7,113,745			7,113,745
Due from subsidiaries	1,312,097	2,083,781		3,395,878
Tax receivables	30,768	102,257		133,025
Prepaid taxes	6,784	42,608		49,392
Other receivables	2,536,801	6,283,008		8,819,809
	11,000,195	8,511,654		19,511,849

Receivables for a significant amount due from subsidiaries at 31/12/2014 are composed as follows:

Description	Due within 12 months	Due after 12 months	Total
Due from ADMANTX SPA	86,797	26,787	113,584
Due from EXPERT SYSTEM USA INC	1,178,665	1,356,994	2,535,659
Due from EXPERT SYSTEM COGITO Ltd	44,935		44,935
Intercompany receivables	1,700		1,700
Due from EXPERT SYSTEM IBERIA SLU		700,000	700,000
total	1,312,097	2,083,781	3,395,878

Tax receivables at 31/12/2014, amounting to € 133,025, are broken down as follows:

Description	Amount
Tax receivables due within 12 months	
Tax authorities/withholding tax on Employee Severance Indemnity (11%)	176
Bonus credit – Decree Law 66/14	6,325
Tax credits for R&D not taxable – portion within 12 months	24,267
total	30,768

Description	Amount
Tax receivables due after 12 months	
Receivable for IRES refund request from IRAP	99,946
Tax credits for R&D not taxable – portion beyond 12 months	2,311
total	102,257

Other receivables, totalling € 8,819,809 at 31/12/2014, are composed as follows:

Description	Due within 12 months	Due after 12 months	Total
Receivables due from personnel	22,400		22,400
11% IRPEF (personal income tax) substitute tax advance	1,775		1,775
Guarantee deposits in cash	231	38,856	39,087
Sundry receivables	2,201	17,871	20,072
Advances to suppliers	66,179		66,179
Receivables for research project grants	2,444,015	6,226,281	8,670,296
total	2,536,802	6,283,008	8,819,809

Receivables for research project grants due within no later than 12 months refer to all receivables accrued at 31/12/2014, relating to sums that the company has to collect in that respect.

Details of receivables for research project grants are presented below.

Project by Tender type	Grant amount	DUE WITHIN 12 MONTHS	DUE AFTER 12 MONTHS
FESR - Province of Trento	347,483	347,483	
Law 6 – Province of Trento	2,367,378		2,367,378
Mise - FIT	957,630	357,630	600,000
MIUR - PNR Tessile	39,984		39,984
MIUR - FAR	1,159,094	1,088,665	70,429
PON	115,000		115,000
PON R&C 2007-2013	1,952,119		1,952,119
POR FESR Lazio	419,235		419,235
European Project - Tender ISEC	662,136		662,136
F7P European Project	650,237	650,237	
Overall total	8,670,296	2,444,015	6,226,281

Prepaid taxes of € 49,392 relate to the temporary deductible differences; for a description please see the section in the last part of these explanatory notes.

The adjustment of the nominal value of receivables to the presumed realisable value was obtained through the appropriate bad debt provision which recorded the following movements during the year:

Description	Bad debt provision pursuant to art. 2426 of the Italian Civil Code	Bad debt provision pursuant to art. 106 of It. Pres. Decree No. 917/1986	Total
Balance at 31/12/2013	314,395		314,395
Use in the year			
Provision in the year	41,664		41,664
Balance at 31/12/2014	356,059		356,059

The breakdown of receivables at 31/12/2014 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Receivables by geographic area	Due from customers	Due from subsidiaries	Due from associates	Due from parent companies	Other receivables	Total
					8,819,809	8,819,809
ITALY	6,686,010	115,284				6,801,294
EU		744,935				744,935
NON-EU	783,794	2,535,659				3,319,453
- Bad debt provision	(356,059)					(356,059)
Total	7,113,745	3,395,878			8,819,809	19,329,432

III. Financial assets

	Balance at 31/12/2014	Balance at 31/12/2013	Changes	
	8,323,806	8,400	8,315,406	
Description	31/12/2013	Increases	Decreases	31/12/2014
In subsidiaries		4,153,074		4,153,074
Other equity investments	8,400			8,400
Treasury shares		89,163		89,163
Other securities		4,073,169		4,073,169
	8,400	8,315,406		8,323,806

The securities have been recorded at purchase cost inclusive of the related charges.

The book value is determined on the basis of the purchase cost.

The increase in the item "equity investment in subsidiaries" is due to the reclassification under current financial assets of the equity investment in the subsidiary ADMANTX SPA, which until 31/12/2013 had been classified under fixed assets. The reasons for this different classification have already been illustrated in the section relating to the change in non-current financial assets.

The value of the equity investment in Admantx Spa at 31/12/2013 amounted to € 1,133,650. The increase of € 3,019,424 which took place between 01/01/2014 and 31/12/2014 was the result of the following:

1) € 2,519,424 on 05/02/2014, when the company EXPERT SYSTEM SPA carried out the share capital increase with exclusion of the option right in favour of the contribution of Admantx Spa shares by IMI Fondi Chiusi società di Gestione del risparmio Spa.

This transaction involved, for Expert System Spa, a share capital increase of € 13,996.80 plus an increase in the share premium reserve of € 2,505,427.20. This share capital increase was paid up through the contribution of

193,997 class B shares of the company Admantx Spa equal to a stake of around 22.754% in share capital, owned by IMI Fondi Chiusi società di Gestione del risparmio Spa.

The contribution of Admantx Spa shares was made through the drafting of an appraisal in accordance with art. 2343 ter, par. 2 of the Italian Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company Admantx Spa at € 11,072,000.

Following the contribution, the company Expert System Spa issued 1,399,680 new shares of no par value and increased share capital by € 13,996.80.

As a result of the contribution of Admantx Spa shares, Expert System Spa now holds a total of 757,547 Admantx Spa shares out of a total of 967,842, increasing its stake from around 66.10% to approximately 78.27%.

2) € 500,000 on 18 July 2014, by means of the Deed of the Notary Public Rolando Rosa File No. 118611/19044, when steps were taken to increase the share capital by a total of € 500,000, as follows:

- Share capital increase for € 6,289 plus a share premium of € 393,711 with issue of 38,599 category A shares.
- Share capital increase for € 1,572 plus a share premium of € 98,428 with issue of 9,648 category A shares.

Information is provided below on the equity investments classified under current assets held directly or indirectly through subsidiaries, associates (art. 2427.1.5 of the Italian Civil Code).

Name	City or Foreign country	Share capital	Shareholders' equity	Profit/Loss	% held	Book value	Reserves of profits/capital subject to repayments or restrictions or deferred tax	Fair Value
ADMANTX SPA	Naples ITALY	189,991	1,170,704	(1,197,789)	69.41	4,153,074		

The value of the equity investment in Admantx Spa was not written down on the basis of the appraisal, carried out in accordance with art. 2343 ter, par. 2 of the Italian Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company Admantx Spa at a total of € 11,072,000. In respect of said valuation, the equity investment in Admantx Spa was not written down given below the fair value.

The absence of the write-down of the Admantx investment is further supported by the increase in share capital of € 17,294, plus a share premium of € 1,082,706, for a total of € 1,100,000, carried out on 30/07/2014 by means of deed of Notary Rolando Rosa of Modena, index No. 118657/19067, fully subscribed and paid-in by a third-party investor with respect to the previous shareholding structure.

The subsidiary Admantx Spa in turn holds the following interest, indirectly controlled by Expert System Spa:

Indirect subsidiaries:

name	CITY/foreign nation	Share capital	Shareholders' equity	Profit/(loss)	% held	Book value
ADMANTX INC	WEST HARTFORD CT 06133-0024 USA	€ 0	(€ 1,666,201)	(€ 328,407)	100%	€ 0

Treasury shares:

Further to the resolution of the ordinary shareholders' meeting dated 09/01/2014, 47,000 treasury shares with no par value were purchased, for a price of € 89,163. In compliance with the provisions of the law, the percentage is within the limit set by articles 2357 and 2357 bis of the Italian Civil Code and a specific restricted reserve has been set up for the same amount under shareholders' equity.

The item "other securities" includes the following securities:

bonds € 979,348

certificates of deposit € 3,000,000
other securities € 93,821

Certificate of deposit No. 81024607, subscribed on 22 December 2014 for € 3,000,000 with Banca Popolare dell'Emilia Romagna, matures on 22/06/2015.

The analysis by homogeneous categories of the items "other equity investments" and "other securities" is not significant.

IV. Cash and cash equivalents

Balance at 31/12/2014	Balance at 31/12/2013	Changes
4,387,562	2,958,851	1,428,711

Description	31/12/2014	31/12/2013
Bank and postal deposits	4,386,192	2,957,350
Cash at bank and in hand	1,370	1,501
	4,387,562	2,958,851

The balance represents cash and cash equivalents and the existence of cash and assets at the close of the year.

D) Accruals and deferrals

Balance at 31/12/2014	Balance at 31/12/2013	Changes
187,719	169,918	17,801

They measure income and charges whose accrual is early or deferred with respect to the actual date of payment and/or of the document; they disregard the date of payment or collection of the relative income and expense, common to two or more financial years and distributable on a time basis.

Also for these items, the criteria adopted for the valuation and conversion of amounts stated in foreign currency are reported in the first part of these explanatory notes.

As at 31/12/2014, no accruals and deferrals had a duration of more than five years.

The breakdown of the item is detailed as follows (art. 2427.1.7 of the Italian Civil Code).

Other prepaid expenses	Due within 12 months	Due after 12 months
RENT AND LEASES PAYABLE	5,618	-
VEHICLE INSURANCE AND ROAD TAX	871	-
NON-DEDUCTIBLE INSURANCE	3,906	-
MOTORCYCLE INSURANCE AND ROAD TAX	19	-
INSURANCE FOR EMPLOYEES ABROAD	52	-
MISCELLANEOUS INSURANCE - OFFICE	17,403	-
RENTED VEHICLE FUEL	144	-
SURETY COMMISSION	21,731	26,103
LOAN FEES	2,475	4,257
SALES CONSULTANCY - ITALY	5,819	-
STRATEGIC CONSULTANCY	9,532	-
TECHNICAL CONSULTANCY - ITALY	3,326	-
BOOKS, MAGAZINES AND SUBSCRIPTIONS	1,724	-
PLANT MAINTENANCE	86	-
ELECTRONIC OFFICE MACHINE MAINTENANCE	97	-
SOFTWARE MAINTENANCE	857	-

ADVERTISING MATERIAL	34	-
TRUCK RENTAL	260	-
VEHICLE RENTAL	984	1,576
VEHICLE RENTAL - FRINGE BENEFIT	8,408	-
HARDWARE RENTAL	1,165	-
PUBLIC RELATIONS	5,301	-
MEMBERSHIP FEES	871	-
RESEARCH, EDUCATION, TRAINING	4,740	-
ADMINISTRATIVE SERVICES	1,616	-
COMMERCIAL SERVICES	1,857	-
CLEANING SERVICES	63	21
AIM LISTING SERVICES	9,836	-
SOFTWARE	6,101	108
BANK CHARGES AND FEES	1,744	1,802
INTERNET COSTS	29,358	-
EXPENSES FOR TRUCK RENTAL SERVICES	334	205
EXPENSES FOR VEHICLE RENTAL SERVICES	384	-
EXPENSES FOR VEHICLE RENTAL SERVICES - FRINGE BENEFITS	5,314	-
ORDINARY TELEPHONE EXPENSES	1,267	-
TELEPHONE AND MOBILE RADIO COMMUNICATIONS EXPENSES	350	-
Overall total	153,647	34,071

Description	Amount
Other prepaid expenses	187,719
	187,719

Liabilities

A) Shareholders' equity

(Ref. art. 2427.1, No. 4, 7 and 7 bis of the Italian Civil Code)

Balance at 31/12/2014	Balance at 31/12/2013	Changes
19,347,723	5,976,806	13,370,917

Description	31/12/2013	Increases	Decreases	31/12/2014
Share capital	144,000	75,497		219,497
Share premium reserve	1,468,843	12,299,887		13,768,730
Legal reserve	28,800	11,267		40,067
Reserve for treasury shares in portfolio		89,163		89,163
Extraordinary or optional reserve	3,592,196	118,914		3,711,110
Merger surplus reserve	376,622			376,622
Miscellaneous other reserves	141,000			141,000
Euro rounding difference			(4)	(4)
Profit (loss) for the year	225,344	1,001,538	(225,344)	1,001,538
Total	5,976,806	13,596,266	(225,349)	19,347,723

The table below shows movements in shareholders' equity:

Description	31/12/2013	Dividends payments	Other allocations	Increases	Decreases	Reclassifications	31/12/2014
Share capital	144,000			75,497			219,497
Share premium reserve	1,468,843			12,299,887			13,768,730
Legal reserve	28,800			11,267			40,067
Reserve for treasury shares in portfolio				89,163			89,163
Extraordinary reserve	3,592,196			214,077	(95,163)		3,711,110
Merger surplus reserve	376,622						376,622
Miscellaneous other reserves	141,001		(5)				140,996
Profit (loss) for the year	225,344			1,001,538	(225,344)		1,001,538
Total	5,976,806		(5)	13,691,429	(320,507)		19,347,723

Share capital is composed as follows (art. 2427.1, No. 17 and 18 of the Italian Civil Code).

Shares/Holdings	No.	With no par value
Ordinary shares	21,949,680	
Total	21,949,680	

At the reporting date, securities in circulation were as follows:
21,949,680 ordinary shares with no par value.

Items of shareholders' equity are distinguished according to origin, possibility of use, distributability and use in the three previous years (art. 2427.1, No. 7 bis of the Italian Civil Code).

Type / Description	Amount	Possibility of use (*)	Available portion	Uses made in 3 previous years to cover losses	Uses made in 3 previous years for other reasons
Share capital	219,497	B			
Share premium reserve	13,768,730	A, B, C	9,125,792		
Legal reserve	40,067				
Reserve for treasury shares in portfolio	89,163				
Other reserves	4,228,728	A, B, C	4,087,728		
Total			13,213,520		
Residual distributable portion			13,213,520		

(*) A: for share capital increase; B: for coverage of losses; C: for distribution to shareholders.

The available portion of the Share premium reserve was reduced by € 4,639,106 in accordance with the provisions of article 2426.5 of the Italian Civil Code and the residual portion equating to € 3,832 of the legal reserve which has not reached 1/5th of the share capital.

The item "Other reserves" includes the PIA reserve for € 141,000, allocated by means of resolution of the shareholders' meeting dated 15 July 2008, referring to the funded research project entitled "Teliar" which avails itself of the Financial concessions as per measure 2.1.a Integrated Concessions Package - PIA Innovazione - envisaged by the P.O.N. "Sviluppo Imprenditoriale Locale" (2nd Call) Project Application A02/1276/P - 44415/13 Decree for provisional granting of the concessions No. 150160 dated 20/03/2006. This reserve is restricted until conclusion of the afore-mentioned project and is therefore unavailable.

In compliance with the provisions of accounting standard No. 28 on shareholders' equity, the following supplementary information is provided:

c) Earnings per share

Holders of shares in the company are due to receive € 0.0457 per share.

The calculation method used is the following:
net profit/No. shares

Shareholders' equity includes the following items:

Reserves or other provisions that, in the event of distribution, do not contribute to the formation of the taxable income of shareholders regardless of the period they are established.

Reserves	Value
Share premium reserve	13,768,730
	13,768,730

Reserves incorporated in the share capital

None.

B) Provisions for risks and charges

(Ref. art. 2427.1.4 of the Italian Civil Code)

Balance at 31/12/2014	Balance at 31/12/2013	Changes
240,984	160,836	80,148

Description	31/12/2013	Increases	Decreases	31/12/2014
Pension provision	836	1,133		1,969
Provisions for taxes, including deferred		89,753		89,753
Other	160,000		(10,738)	149,262
	160,836	90,886	(10,738)	240,984

The increases relate to allocations in the year. The decreases refer to uses in the year.

The pension provision refers to the allocation of the supplementary indemnity fund for customers due to agents, as envisaged by article 1751 of the Italian Civil Code. Provisions for taxation include the provision for taxes relating to tax assessments amounting to € 30,000, inherent to the 2013 tax period, in relation to which the Company presented waiver as per article 5 *bis* of Italian Legislative Decree No. 218 dated 19 June 1997.

Provisions for taxes include deferred tax liabilities of € 59,753 relating to taxable timing differences; for a description of these please refer to the relevant section of this explanatory notes.

The item "Other provisions" amounting to € 149,262, was established in previous years and was used during the year for € 10,738 further to losing a lawsuit (article 2427.1.7 of the Italian Civil Code).

C) Employee severance indemnity

(Ref. art. 2427.1.4 of the Italian Civil Code)

Balance at 31/12/2014	Balance at 31/12/2013	Changes
1,126,002	948,598	177,404

The change is composed as follows.

Changes	31/12/2013	Increases	Decreases	31/12/2014
Changes in TFR (Employee Severance Indemnity) in the year	948,598	288,312	110,908	1,126,002

The provision established refers to the actual amounts accrued due to employees in compliance with law and the applicable employment contracts, in consideration of any form of continuous pay.

D) Payables

(Ref. art. 2427.1.4 of the Italian Civil Code)

Balance at 31/12/2014	Balance at 31/12/2013	Changes
15,615,492	14,158,307	1,457,185

Payables are valued at their nominal value and their maturities are broken down as follows (art. 2427.1.6 of the Italian Civil Code).

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total
Payables due to banks	2,647,115	4,381,995		7,029,110
Payables due to other lenders	293,183	416,608		709,791
Payments on account	538,058	2,828,137		3,366,195
Trade payables	1,884,471			1,884,471
Payables due to subsidiaries		1,248		1,248
Tax payables	1,454,606			1,454,606
Payables due to social security institutions	235,348			235,348
Other payables	934,723			934,723
	7,987,504	7,627,988		15,615,492

The balance of payables due to banks at 31/12/2014, amounting to € 7,029,110, including mortgage borrowings, expresses the actual amount due in principal, interest and accessory expenses accrued and payable. The most significant payables as at 31/12/2014 were as follows (amounts in €):

Description	Due within 12 months	Due after 12 months
Bank overdrafts	31,779	
Advances on receivables	3,409	
Banca popolare di Milano mortgage	101,730	
Banca CARIGE mortgage	35,206	158,876
Banca CARIGE mortgage	80,000	160,000
Unicredit mortgage	47,177	
Unicredit Medio credito	202,570	294,079
Unicredit – Cogito	244,196	522,236
Banca Popolare Emilia Romagna	502,385	867,690
Credem	433,400	216,600
Carisbo	100,000	
Cassa Rurale di Rovereto	36,982	37,644
Ubi	169,768	310,536
Cariparma	233,403	739,444
Banco Desio	326,706	673,294
BPV - Banco popolare coop.	98,404	401,596
	2,647,115	4,381,995

It should be noted that the Carige loan, taken out to purchase a property in Naples, is secured by a mortgage on said asset for an amount of € 434,000 (art. 2427.1.6 of the Italian Civil Code).

The balance of the payable due to other lenders as at 31/12/2014, amounting to € 709,791, is analysed as follows:

Description	Due within 12 months	Due after 12 months
PIA loan	105,975	322,653
Other loans	187,208	93,955
	293,183	416,608

The item "Payments on account" includes advances received from clients relating to work in progress amounting to € 3,366,195 which is detailed below by job and expected duration of the job (amounts in €):

Advances on funded projects	Advance amount	Due within 12 months	Due after 12 months
Advances from Province of Trento	1,183,689		1,183,689
PON R&C 2007-2013	590,936		590,936
POR FESR Lazio	41,675		41,675
European Project - Tender ISEC	1,011,837		1,011,837
F7P European Project	538,058	538,058	
Overall total	3,366,195	538,058	2,828,137

"Trade payables" are recorded net of trade discounts; by contrast, cash discounts are recorded at the time of payment. The nominal value of these payables was adjusted due to returns and rebates (billing adjustments), consistent with the amount defined with the counterparty.

The item "Tax payables" only includes liabilities for certain and specific taxes, since the liabilities for probable or uncertain taxes with regard to amount or the timing, or rather deferred taxes, are recorded in liability item B.2 (Taxation).

The item tax payables included the payables for IRES taxes amounting to € 117,884, net of the advances paid over during the year for € 109,121, the tax withholdings made, amounting to € 25,573, and the IRES credit carried forward for € 67,045. Furthermore, payables for IRAP taxes amounting to € 45,313 are included, net of the advances paid over during the year for € 135,587 and the IRAP credit carried forward for € 51,591.

"Tax payables" also include the payable to the tax authorities for VAT as at 31/12/2014 amounting to € 866,481 and the payable due to the tax authorities for tax withheld at source amounting to € 424,928.

Other payables include amounts due to directors for € 63,399, amounts due to employees for untaken holiday entitlement, monthly payments and bonuses accrued for € 844,900 and amounts due to others for € 26,424.

The breakdown of payables at 31/12/2014 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Payables by geographic area	Trade payables	Due to subsidiaries	Due to associates	Due to parent companies	Other payables	Total
Italy		1,248			934,723	935,971
ITALY	1,197,540					1,197,540
EU	59,834					59,834
NON-EU	61,666					61,666
INVOICES TO BE RECEIVED	565,431					565,431
Total	1,884,471	1,248			934,723	2,820,442

E) Accruals and deferrals

Balance at 31/12/2014	Balance at 31/12/2013	Changes
3,341,165	4,143,233	(802,068)

Accruals and deferrals represent the adjusting entries for the year, accounted for using the accrual principle. The criteria adopted for the valuation and conversion of amounts stated in foreign currency for these items are reported in the first part of these explanatory notes.

As at 31/12/2014, no accruals and deferrals had a duration of more than five years.

The breakdown of the item is detailed as follows (art. 2427.1.7 of the Italian Civil Code).

Description	Amount
DEFERRED INCOME FOR RESEARCH PROJECT GRANTS	2,870,802
DEFERRED INCOME	429,663
ACCRUED EXPENSES	40,700
	3,341,165

Deferred income referring to operating grants on research projects, are detailed below by project funded and maturity within/beyond 12 months:

Tender type	Deferred income for research project grants	Deferrals due within 12 months	Deferrals due after 12 months
FESR - Province of Trento	108,568	36,189	72,379
Provincial Law 6/99	406,248	156,309	249,939
PON	103,108	11,892	91,216
PON R&C 2007-2013	1,458,729	124,072	1,334,657
POR FESR Lazio	337,868	72,682	265,186
F7P European Project	456,280	107,905	348,375
Overall total	2,870,802	509,049	2,361,753

The breakdown of deferred income is presented below:

Deferred income	Due within 12 months	Due after 12 months
HOSTING FEES	5,400	-
SERVICES PROVIDED	152,276	-
REVENUES FOR MAINTENANCE FEES	109,755	180
REVENUES FOR LICENCE SALE	162,052	-
Overall total	429,483	180

Memorandum accounts

(Ref. art. 2427.1.9 of the Italian Civil Code)

Description	31/12/2014	31/12/2013	Changes
Risks assumed by the company	7,252,948	3,994,100	3,258,848
	7,252,948	3,994,100	3,258,848

These are surety guarantees vis-à-vis banks for € 6,556,948. The remaining € 696,000 includes € 300,000 for the guarantee given by Expert System Spa to the subsidiary Admantx Spa, assumed by means of a private agreement between Expert System Spa and IMI Fondi Chiusi società di gestione del risparmio Spa (IMI).

In respect of said agreement Expert System Spa undertakes to purchase from IMI, in the event the subsidiary Admantx Spa is unable to repay at the maturity dates set forth by the loan, the bond securities subscribed by IMI.

The guarantee originally given for a maximum of 4 bonds with a par value of € 100,000 each for a total of €

400,000, has now dropped to € 300,000 further to the partial conversion of the bond issue by IMI..
The remaining € 396,000 is made up of the surety undertaken in favour of the investee company OKKAM SRL.

Income statement

A) Value of production

	Balance at 31/12/2014	Balance at 31/12/2013	Changes
	16,148,501	13,119,876	3,028,625
Description	31/12/2014	31/12/2013	Changes
Sales and service revenues	10,943,137	10,608,164	334,973
Changes in contract work in progress	1,086,769	(245,498)	1,332,267
Own work capitalised	3,041,447	2,255,895	785,552
Other revenues and income	1,077,148	501,315	575,833
	16,148,501	13,119,876	3,028,625

The change is strictly related to the information shown in the Report on operations.

Details of capitalised costs broken down by project are shown below:

Type of projects capitalised in 2014	Cost per project
analysis of cultural asset contents	214,074.33
analysis of social contents	121,722.91
automatic generation technology	464,016.75
technologies for the recognition of natural language interaction	1,142,582.01
technologies for automatic learning	97,071.91
technologies for intelligence	767,127.85
technologies for search engines	234,850.95
Overall total	3,041,446.71

The item "Other revenue and income" totalling € 1,077,148 includes operating grants for € 528,777 which refer to grants received for the hiring of personnel and € 509,049 for the portion pertaining to the year of grants relating to assets calculated in proportion to the amortisation of R&D costs to which they refer, plus various other income for € 39,322.

Revenues by business sector

(Ref. art. 2427.1.10 of the Italian Civil Code)

The breakdown of revenues by business sector is not significant.

Revenues by geographic area

(Ref. art. 2427.1.10 of the Italian Civil Code)

The breakdown of revenues by geographic area is not significant.

B) Costs of production

	Balance at 31/12/2014	Balance at 31/12/2013	Changes
	14,639,264	12,204,237	2,435,027
Description	31/12/2014	31/12/2013	Changes
Raw materials and goods for resale	306,141	709,426	(403,285)
Services	6,655,742	5,111,348	1,544,394
Use of third-party assets	502,007	468,463	33,544
Salaries and wages	3,962,215	3,483,234	478,981
Social security costs	1,086,392	989,805	96,587
Employee severance indemnity	288,312	274,484	13,828
Other personnel costs	35,665	21,756	13,909
Amortisation of intangible fixed assets	1,512,104	956,305	555,799
Depreciation of tangible fixed assets	138,566	105,166	33,400
Write-down of receivables included in current assets	41,665	36,493	5,172
Provision for risks	30,000		30,000
Sundry operating expenses	80,455	47,757	32,698
	14,639,264	12,204,237	2,435,027

Costs for raw materials, consumables and goods for resale and Service costs

These are strictly related to the information disclosed in the relevant part of the Report on operations and to the trend in point A (Value of production) of the income statement.

Personnel costs

The item includes all expenses for employees, including therein merit pay increases, promotions, automatic cost-of-living increases, the cost of holidays accrued but not taken and legal provisions and collective contracts.

Depreciation of tangible fixed assets

Depreciation has been calculated on the basis of the useful life of the asset and its use in the production phase.

Write-down of receivables included in current assets and of cash and cash equivalents

The allocation to the bad debt provision was made through an accurate recognition of all receivables in the financial statements. Therefore, a total of € 41,665 was allocated, which covers doubtful receivables.

C) Financial income and expenses

	Balance at 31/12/2014	Balance at 31/12/2013	Changes
	54,746	(376,473)	431,219

Financial income

Description	31/12/2014	31/12/2013	Changes
From securities recorded in current assets		998	(998)
Other income	157,889	50,821	107,068
(Interest and other financial expenses)	(336,921)	(392,459)	55,538
Exchange gains (losses)	233,778	(35,833)	269,611
	54,746	(376,473)	431,219

The Company has benefited from the sums collected further to listing, generating a considerable improvement in the financial operations, with an increase in financial income and corresponding reduction in financial expenses.

Other financial income

Description	Parent companies	Subsidiaries	Associates	Other	Total
Bank and postal interest				118,235	118,235
Interest on trade receivables					
Other income		26,029		13,625	39,654
		26,029		131,860	157,889

Interest and other financial expenses

(Ref. art. 2427.1.12 of the Italian Civil Code)

Description	Parent companies	Subsidiaries	Associates	Other	Total
Bank interest				2,410	2,410
Supplier interest				220	220
Medium-term credit interest				248,690	248,690
Discounts or financial expenses				35,575	35,575
Interest on loans				490	490
Other expenses on financial transactions				49,535	49,535
Rounding				1	1
				336,921	336,921

Exchange gains (losses)

As regards total net profits in the income statement, the unrealised valuation-related component accounts for € 218,147, while unrealised exchange losses totalled € 865.

The net gain of € 217,282 is recorded in a restricted reserve until it is subsequently realised.

D) Value adjustments of financial assets

Balance at 31/12/2014	Balance at 31/12/2013	Changes
	(11,307)	11,307

Write-downs

Description	31/12/2014	31/12/2013	Changes
Of non-current financial assets		11,307	(11,307)
		11,307	(11,307)

E) Extraordinary income and expenses

(Ref. art. 2427.1.13 of the Italian Civil Code)

Balance at 31/12/2014	Balance at 31/12/2013	Changes
59,257	56,439	2,818

Description	31/12/2014	Previous year	31/12/2013
Miscellaneous	215,363	Miscellaneous	148,597
Total income	215,363	Total income	148,597
Miscellaneous	(156,106)	Miscellaneous	(92,158)
Total expenses	(156,106)	Total expenses	(92,158)
	59,257		56,439

Extraordinary income includes the following contingent assets:

Grants on Isec projects € 114,066.84

Capitalisation of listing costs € 50,014.50

Extraordinary expenses mainly include contingent liabilities relating to grants taxed in previous years which were not recognised for a total of € 116,041, and contingent liabilities totalling € 40,065 deriving from supplier invoices whose cost was not recognised in the pertinent year.

Income taxes for the year

	Balance at 31/12/2014	Balance at 31/12/2013	Changes
	621,702	358,954	262,748
Taxes	Balance at 31/12/2014	Balance at 31/12/2013	Changes
Current taxes:	552,114	365,513	186,601
IRES	319,623	181,101	138,522
IRAP	232,491	184,412	48,079
Substitute taxes			
Deferred (prepaid) taxes	69,588	(6,559)	76,147
IRES	63,361	(6,550)	69,911
IRAP	6,227	(9)	6,237
Income (expenses) resulting from compliance with tax consolidation / tax transparency	621,702	358,954	262,748

Taxes pertaining to the year were recorded.

A reconciliation between the tax charge in the financial statements and the theoretical tax charge is shown below:

Reconciliation between the tax charge in the financial statements and the theoretical tax charge (IRES)

Description	Value	Taxes
Pre-tax result	1,623,240	
Theoretical tax charge (%)	27.5	446,391
Timing differences taxable in subsequent years:	0	
Unrealised exchange gains	(218,147)	
	(218,147)	
Timing differences deductible in subsequent years:	0	
Amortisation of trademarks and unrealised exchange losses	1,180	
	1,180	
Reversal of timing differences from previous years	0	0
Changes in foreign currency items due to collections of receivables/payment of payables in foreign currency as at 31/12/2013	(1,354)	
1/5 assessment appraisal	(1,476)	
Changes in foreign currency items due to collections of receivables/payment of payables in foreign currency as at 31/12/2013	133	
	(2,697)	
Differences that will not carry forward to subsequent years		
Permanent decreases	(138,484)	

Permanent increases	290,201	
ACE (AID FOR ECONOMIC GROWTH)	(393,027)	
Taxable income	1,162,266	
Current income taxes for the year		319,623

Calculation of taxable income for IRAP purposes

Description	Value	Taxes
Difference between the value and costs of production	6,953,486	
Costs not relevant for IRAP purposes	2,292,187	
Revenues not relevant for IRAP purposes	(116,041)	
	9,129,632	
Theoretical tax charge (%)	3.9	356,056
Timing differences deductible in subsequent years:		
IRAP DEDUCTIONS art. 11.1, letter a) lt. Leg. Decree No. 446	(3,388,372)	
Tax base for Irap purposes	5,741,260	
Current IRAP for the year		232,491

The IRAP is calculated by applying differentiated rates in relation to the various regions in which the company operates.

Pursuant to art. 2427.1.14 of the Italian Civil Code, the required information on deferred and prepaid taxes is shown below.

Deferred / prepaid taxes

Prepaid taxes were recorded given there is reasonable certainty as to the existence, in the years in which the temporary deductible differences will carry forward, in respect of which prepaid taxes were recognised, of a taxable income not lower than the amount of the differences that will be cancelled.

The main temporary differences that involved the recognition of deferred and prepaid taxes are indicated in the table below, together with the associated effects.

Recognition of deferred and prepaid taxes and subsequent effects:

	Year ended 31/12/2014		Year ended 31/12/2013	
	Amount of timing differences	Tax effect	Amount of timing differences	Tax effect
Prepaid taxes:				
Unrealised exchange losses			27,332	7,516
Unrealised exchange gains			329	(90)
Amortisation of trademarks			236	74
Total				7,500
2014 provisions				
Unrealised exchange gains	218,147	(59,990)		
Unrealised exchange losses	(865)	238		
Total provision for deferred taxes as at 31/12/2014	217,282	(59,753)		
<u>Amortisation of trademarks</u>	<u>315</u>	<u>99</u>		
Reversal effect				
1/5 revaluation appraisal		(406)		
Unrealised exchange losses		(372)		
Unrealised exchange gains		37		
Provision for legal risks		(9,193)		
Prepaid taxes as at 31/12/2014		(9,835)		

Prepaid taxes presented a negative balance since they express the reversal effect caused by the re-absorption of the unrealised exchange gains and losses recognised in previous years, by the pertinent portion of the revaluation appraisal and by the provision for legal risks.

Prepaid taxes were recorded given there is reasonable certainty as to the existence, in the years in which the temporary deductible differences will carry forward, in respect of which prepaid taxes were recognised, of a taxable income not lower than the amount of the differences that will be cancelled.

Information on the financial instruments issued by the company

(Ref. art. 2427.1.19 of the Italian Civil Code)

The company has not issued any financial instruments.

Information on the fair value of derivative financial instruments

(Ref. art. 2427 bis 1.1 of the Italian Civil Code)

The company has not issued any derivative financial instruments.

Information on related party transactions

(Ref. art. 2427.1.22 *bis* of the Italian Civil Code)

Information relating to transactions with the subsidiaries Admantx Spa, Expert System USA Inc, Expert System Cogito Ltd and the associate Cy4Gate Srl is provided below, exclusively for reasons of greater disclosure transparency. The agreements were in any event entered into under normal market conditions (arm's-length basis).

With the subsidiary Admantx Spa:

Sales

1) Lease agreement for property in Naples, Via nuova Poggio Reale, Centro Polifunzionale Inail (Inail – National Institute for Insurance against Accidents at Work - Multi-purpose centre), where the company has its registered office: annual fee of € 5,083.00;

Sub-letting agreement for local office in Modena, Via Virgilio 56/Q: annual fee of € 3,677.00;

Services contract relating to accounting support, company economic-financial consultancy, secretary and general services:

fee for accounting support and company consultancy € 20,000 per annum

fee for secretarial activities € 1,200 per annum

fee for general services (telephone, cleaning services and material, security, electricity, stationery, management software maintenance): forfeit reimbursement for 4.15% of the costs incurred by Expert System Spa;

Contract for technical consultancy: € 6,291.95

Contract for strategic consultancy: € 36,000.00

The balance sheet items affected by these contracts are intercompany customers.

The income statement items are reclassified within the following accounts:

A5) other revenues and income

Purchases

Marketing consultancy contract: € 46,809.89

The balance sheet items affected by this contract are trade payables.

The income statement items are reclassified within the following accounts:

B) 7) service costs

Commercial activity contract: € 29,288.34

The balance sheet items affected by this contract are trade payables.

The income statement items are reclassified within the following accounts:

B) 7) service costs

Contract for technical consultancy activities: € 28,440.67

The balance sheet items affected by this contract are trade payables.

The income statement items are reclassified within the following accounts:

B) 7) service costs

With the subsidiary Expert System USA Inc.:

professional service activities performed for the subsidiary, concessions of licences and granting of loans.

The balance sheet item affected by these transactions is "customers for invoices to be issued amounting to € 478,344" reclassified to the item C) II 2) "Receivables due from subsidiaries";

The income statement items affected by these transactions are:

- "Interest income from subsidiary Expert System USA Inc" reclassified to the item C) 16) d) for € 25,954;
- "Services provided" reclassified in the item A) 1 for a total of € 210,366;
- "Hosting fees" reclassified in the item A) 1 for a total of € 242,023.

With the subsidiary Expert System Cogito Ltd:

granting of a loan

The balance sheet item affected by this transaction is "customers for invoices to be issued amounting to € 75" reclassified to the item C) II 2) "Receivables due from subsidiaries";

The income statement item affected by this transaction is:

- "Interest income from subsidiary Expert System Cogito Ltd" reclassified to the item C) 16) d) for € 75.

With the associate Cy4gate Srl:

concessions of licences in favour of the associate

The balance sheet item affected by this contract is "Receivables due from customers" reclassified to the item C) II;

The income statement items affected by this contract are:

"revenues from sales of licences" reclassified in the item A) 1 for a total of € 2,788,800.00.

Information on off-balance sheet agreements

(Ref. art. 2427.1.22 *ter* of the Italian Civil Code)

The company has no off-balance sheet agreements in place.

Information on fees due to the independent auditor

(Ref. art. 2427.1.16 *bis* of the Italian Civil Code)

Pursuant to law, the fees due for services provided by the independent auditors and entities belonging to its network during the year are stated below.

Fees due for the independent audit of the annual accounts: € 26,132

Other information

Pursuant to law, the total fees due to directors and the audit body are shown below (art. 2427.1.16 of the Italian Civil Code).

Role	Fee
Directors	1,038,696
Board of Statutory Auditors	14,000

Cash flow statement

Description	31/12/2014
NET OPERATING PROFIT (NOP)	1,509,237
+ Amortisation/Depreciation	1,650,670 *
EBITDA SELF-FINANCING	3,159,907
- Taxes for the period	-621,702 *
NET OPERATING PROFIT SELF-FINANCING	2,538,205
+ Change in operational working capital	-434,492 **
+ Change in employee severance indemnity provision	177,404 **
- Change in other provisions	80,148 **
Financial income and expenses (operations)	297,783
CURRENT OPERATIONAL CASH FLOW (COCF)	2,659,048
- Purchases and sales of tangible and intangible fixed assets	-3,891,563 **
OPERATIONAL CASH FLOW	-1,232,515
- Purchase and sale of financial assets	-9,019,174 **
± Non-banking financial income and expenses	26,029 *
ORDINARY CASH FLOW	-10,225,660
± Extraordinary income and expenses	59,257 *
CASH FLOW SERVING THE DEBT	-10,166,403
- Repayment of financial payables	-416,040
+ Borrowing	**
- Financial expenses	-269,066 *
CASH FLOW SERVING EQUITY	-10,851,509
- share capital increases against payment	12,280,221 *
CHANGE IN CASH BALANCE	1,428,712 **
cash at start of the year	2,958,851
cash at end of the year	<u>4,387,563</u>
change in cash	1,428,712

*= costs/revenues for the year

**= change with respect to previous year

These financial statements, composed of the Balance Sheet, Income Statement and Explanatory Notes, give a true and fair view of the financial position and the result for the year and correspond to the accounting records.



Report on operations accompanying the financial statements for the year ended as at 31/12/2014



Chairman of the Board of Directors
Marco Varone

Companies' Register No. 02608970360
Rea (Economic and Administrative Index) No. 212386

EXPERT SYSTEM SPA

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in

Report on operations accompanying the financial statements for the year ended as at 31/12/2014

Dear Shareholders,

the year ended at 31/12/2014 recorded a positive result of € 1,001,538.

Operating conditions and business development

The Company carries out its activities in the Company Technology sector where it deals with unstructured information and is the global leader in the development of semantic software for understanding and analysing information.

The company has always pursued the objective of developing a software platform that understands the significance of said information and the context to which it refers, therefore providing results of a decidedly higher quality compared to the output of traditional products, based on key words or statistical algorithms. The Cogito platform is able to apply the typical human understanding techniques and, therefore, makes it possible to manage all forms of unstructured information, like documents, web pages, e-mails, etc. in a revolutionary way.

2014 was characterised by a major event, namely the listing on AIM Italia, in view of the company's development and international expansion plan. The operation was hugely successful, generating financial resources and making the company more visible. The funds collected through the share capital increase have already been partly allocated not only to achieving this key objective (which the company will continue to do) but to the constant development of COGITO technology and of derivative products, which will compete increasingly more with international competitors. The sales activities carried out by the company in recent months relate to both the development of direct contacts with customers and the construction of a network of Italian partners at international level which can act as a distributor and system integrator of the line of COGITO products. In fact, within this sphere significant partnership agreements were strengthened with Italian and international companies such as, for example, with 3M in the health sector. Again during the year, an agreement was signed with Digital Magics, one of the most important Italian incubators for the provision of COGITO technology to the start-ups financed by them. This is an initiative which not only creates interesting links with innovative and emerging companies, but, in the medium-term, may also deliver economic results, should these start-ups be successful in their various sectors.

At the beginning of 2015, on conclusion of important work carried out in 2014, the company announced that it had joined the Google partnership programme as technological partner of Google Cloud Platform. In its capacity as partner company, Expert Systems will extend the benefits of the Cogito semantics technology to the Google cloud platform. Thanks to an ecosystem of qualified partners on a global scale, the Google Cloud platform today holds a leadership position, especially due to the high quality of the services offered to businesses. The Google "Work for Partner" programme includes Google technological partners which integrate their technologies in the Google Cloud Platform so as to extend the range and functions, supporting a rapid development of powerful and innovative solutions by customers. Compliance with the Google for Work Partner Program in the capacity of technological partner is the result of constant investment in R&D by Expert System, aimed not only at optimising the Cogito technology, with all the derivative products, but also encouraging an increasingly greater adoption of the same via the most reliable and innovative platforms and environments.

With regard to technology, by contrast, a number of new products were presented including, for example, a COGITO integration with the Microsoft product Sharepoint for the classification and intelligent tagging of documents contained in this platform. As regards international recognition, we should point out the confirmation and improvement of our position in the "Gartner Magic Quadrant 2014 for Enterprise Search" which now ranks Expert System in the top 10 companies in the world in terms of company document search products.

During the year, the Cogito API product was also released, so as to offer an opportunity to access and use the technology on a large scale and further the development of new applications with evolved semantic functions. The Cogito API product addresses a very wide audience of parties: independent developers, small businesses and start-ups, solution providers in vertical sectors and system integrators which can incorporate the Cogito semantic intelligence in any type of application (including mobile). Via Cogito API it is possible to analyse any type of text and "understand" the aspects, concepts, entities, relationships and sentiments expressed in depth, providing a series of structured information as output which can be used in business solutions which range from Customer Care to Sentiment Analysis, evolved interfaces to Business Intelligence. From a business strategy standpoint, the release of Cogito API fully falls within the Expert System growth plan: in fact, it makes it possible to strengthen the internationalisation process of the company, exploiting a method of offering the services which is increasingly simple, widespread and appreciated.

Again with regard to the development of the company's presence on foreign markets, a new office was opened in Palo Alto, in Silicon Valley in California, in order to achieve a constant presence at the heart of the Information Technology world, as a "technological antenna" for the company and for developing commercial relations with the key companies in that area. The finalisation of a partnership with Cloudera, one of the most important companies in the world in the provision of cloud services, already constitutes the first significant benefit of this initiative, just a few months after it was established.

Expert System Cogito Ltd was established on 24/06/2014 with headquarters in London, wholly-owned, thus extending Expert's presence abroad even further.

Via Expert System Cogito Ltd, Expert System Spa sets itself the objective of strengthening its presence on the UK market, particularly strategic for sectors such as Finance, Oil & Gas and Publishing where the company has already gained great experience. Coverage of the UK also facilitates the consolidation of different partnerships, launched with major technology and consultancy companies, and constant and direct contact with customers.

On 11 December 2014, Expert System Spa established a new company together with Elettronica Spa, known as CY4Gate Srl with headquarters in London, in which Expert System holds a 30% interest.

CY4Gate will use the software and know how developed by Expert System's Intelligence Division, and the electronic defence systems and expertise of Elettronica, so as to offer cyber defence electronics and intelligence products and services to government organisations in the security sector.

CY4Gate also entered into a number of contracts with Expert System for an overall value of € 3 million; this agreement, which can be classified as a transaction of greater importance as per applicable legislation, was subject to approval by the Related Parties Committee and the Board of Directors of Expert System.

Again within the sphere of Expert System's internationalisation strategy, on 21 November 2014 Expert System Iberia S.L.U. was established, wholly-owned and with headquarters in Barcelona, Spain. Subsequently, on 23 December 2014 Expert System - via its subsidiary Expert System Iberia S.L. - acquired the ICM (Intelligent Content Management) and iLab - Research Center Innovation - division of iSOCO, an international company with headquarters in Barcelona with business relations launched in South America, operating in the field of software design based on semantic technology for the handling of non-structured information dedicated to a vast range of industrial services with particular reference to the banking, governmental and pharmaceutical sector.

In particular, iLab is the laboratory dedicated to research and development, a benchmark in the sphere of international research in the field of artificial intelligence and semantic technology.

Via Expert System Iberia, with headquarters in Barcelona and Madrid, the company thereby strengthens its presence in Europe and launches new commercial relationships in South America.

Pursuant to article 2428 of the Italian Civil Code, it should be noted that activities are carried out at the company's registered offices in Rovereto (TN) and at the secondary offices in Modena, Naples, Rome and Povo (TN).

From a legal viewpoint, Expert System Spa directly and indirectly controls the companies below, which perform the following activities that are complementary and/or functional to the Group's core business.

COMPANY	Equity investment	Control	Activity carried out
Admantx Spa	69.41%	Yes	Software platform for contextualising on-line advertising on a semantic basis
Expert System USA Inc	100%	Yes	Semantic software activities in the Information technology field
Expert System Cogito Ltd	100%	Yes	Semantic software activities in the Information technology field
Expert System Iberia Slu	100%	Yes	Semantic software activities in the Information technology field

Expert System indirectly controls the following companies via Admantx Spa:

Name	CITY/foreign nation	Share capital	Shareholders' equity	Profit/(loss)	% held	Book value
Admantx Inc	WEST HARTFORD CT 06133-0024 USA	€ 0	(€ 1,666,201)	(€ 328,407)	100%	€ 0

Expert System deemed it appropriate to consider Admantx as outside the scope of consolidation of the Group in the year of first-time consolidation.

This choice lies in the comments illustrated below:

Business:

Admantx offers software designed for the purpose of optimising digital advertising.

Thanks to its patented technology, Admantx supports the advertising operators in the digital sphere analyzing the contents of the web pages, an instance before the advertising is "affixed" on the digital page. These activities take place for millions of pages per second via technology developed for the Digital Advertising market. During 2014, Admantx created a second line within the sphere of Profiling of On-line Users. Thanks to the technology developed in the Digital Advertising sphere, the company created a new solution dedicated to analysing the contents of the pages visited by the users on the web so as to create the profiling of on-line conduct. Both the products are particularly interesting for marketing agencies, advertising agencies and Brands with particular interest in Brand Positioning and knowledge of their customers. It is therefore clear that Admantx's business is now finally verticalised from a technological, commercial and organisational standpoint. Important commercial contacts were launched both in 2014 and 2015, partly thanks to the integration of the product on programmatic platforms of global importance, including Turn, Appnexus and Adform. Expert System initially supported the development of this new vertical in the business start-up phase, as is typical of the role of incubator performed by the Group in the event of new verticalisations.

Admantx's activities differ however in an essential manner from the Expert System Business Model both due to technology, since the Admantx product uses a product expressly designed for the Digital Advertising market, and in terms of the reference markets (Expert System operates on completely different markets to those of Admantx).

Strategics:

Expert System has established the strengthening of its market position in the Semantic Software sector among its strategic priorities, with the mission of creating the technological leader with cutting edge solutions on the market. This technology, due to its native-type development, is designed so as to be easily applicable at horizontal level to numerous industries and outlet markets by third party operators with contacts and networks in the reference niche ("the vertical"). Strengthening the relationships with the operators with strong commercial relations in specific vertical segments is in fact among the Group's priorities. As in the case of Admantx in fact, the sale of software products within the sphere of a specific vertical, such as Advertising, requires a commercial structure focused on

activities typical to the vertical.

It is for this reason that also Admantx falls within the sector of those companies which use the Cogito product, having integrated it for its commercial ends, which lie outside the Group scope of consolidation. In fact, Admantx falls within the category of equity investments in companies which, having integrated COGITO in their vertical solution, have developed a specific business in the reference vertical. These equity investments are therefore destined to be minority or treated as such in the event that the accounting investment is different. Expert System has therefore deemed it appropriate to reclassify the equity investment in Admantx Spa under current assets and no longer under long-term assets. The reason for this differing classification with respect to the previous year can be found in the changed purpose for the holding of the equity investment by Expert System Spa.

The equity investment in Admantx Spa as at 31/12/2014 is no longer considered functional with regard to the Expert Group's objectives and in fact, since the last quarter of 2014, scouting activities have been underway via a specialised advisor for the purpose of identifying a strategic partner, of an industrial and/or financial nature, to whom a significant or total holding in the company may be transferred, which permits Admantx to more fully express its potential on a market such as that of ADTech which has features and methods very different from the Expert System business model.

The changes in the Group structure which took place during 2014, refer to the purchase of 100% in Expert System Cogito Ltd and Expert System Iberia S.L., as already indicated previously.

Operating performance

On 14/02/2014, the Company was admitted to listing on AIM Italia – Mercato Alternativo del Capitale (Alternative Capital Market) and its shares were traded from 18/02/2014.

AIM (Alternative Investment Market) Italia is the market regulated by Borsa Italiana (Italian Stock Exchange) dedicated to the most dynamic and competitive SMEs with high growth potential in Italy. The market was created at the beginning of 2012 from an amalgamation of the AIM Italia and MAC markets, with a formula based on know-how acquired thanks, on the one hand, to 15 years of experience on the UK AIM, and, on the other, on the specific requirements of the Italian business system.

The performance of the stock as at 31/12/2014 is presented below:

Market:	AIM Italia – MAC	
Share capital:	219,497	
Capitalisation:	41,243,449	
Minimum parcel:	1,000.00	
Reference price:	1.887 - 30/12/2014 17.35.00	
Official price:	1.879 - 30/12/2014	
Daily Opening:	1.884	
1 month performance:	+0.43%	
6 month performance:	+0.21%	

The graph showing share performance from IPO (18/02/2014) to 26/05/2015 is presented below:



Semantics is taking on increasingly greater significance in the IT offer scenario due to the exponential increase in the availability of unstructured information which must be managed and understood.

The decision to concentrate expansion efforts overseas on the US market derives from the fact that the environment contains various large private companies and government bodies that potentially have a watchful eye on and are receptive to advanced instruments for text analytics.

Expert System is the only Italian company, and among the few worldwide, to be present in the prestigious Gartner Magic Quadrant again in 2014, dedicated to information access technologies. Expert System is the only Italian company, among those considered by Gartner, characterised by a deep semantic approach to information analysis. In the context of the Magic Quadrant, Gartner highlighted Expert System's highly skilled handling of all information data sets for intelligence purposes, with particular appreciation for the scalability of the available solutions, depth of analysis and level of expertise of the company in developing "customised" solutions and projects.

Furthermore, Expert System was nominated among "The 100 most important companies in Knowledge Management" by the US publication KM World, the main reference point at global level in the Knowledge Management sector.

Each year, professionals from the sector, scholars and analysts work together with the editorial staff of KMWorld to discuss the most innovative applications and services for accessing information and the handling of knowledge.

With regard to the performance of the company's value of production, the trend disclosed an increase of over 23% when compared with 2013.

Operating performance in sectors in which the company operates

The company ended the year with a profit of € 1,001,538.

The table below shows the results achieved in the last three years in terms of the value of production, EBITDA and pre-tax profit.

	31/12/2014	31/12/2013	31/12/2012
Value of production	16,148,501	13,119,876	14,543,485
EBITDA	3,231,572	2,013,603	2,624,177
Pre-tax result	1,623,240	584,298	1,148,254

The above table discloses an increase in the value of production with respect to 2013, of over 23%, along with a EBITDA of over 60% compared with past year and a pre-tax result equal to 178% when compared with 2013.

Main income statement figures

The company's reclassified income statement, compared with that of the previous year, is shown below (in Euro):

	31/12/2014	31/12/2013	Change
Net revenues	10,943,137	10,608,164	334,973
Change in inventories	1,086,769	-245,498	1,332,267
Own work capitalised	3,041,447	2,255,895	785,552
Operating grants	528,777	59,049	469,728
Grants relating to assets	509,049	339,080	169,969
Sundry income	39,322	103,186	(63,864)
Cost of materials and overheads	(7,544,345)	(6,336,994)	(1,207,351)
Value added	8,604,156	6,782,882	1,821,274
Cost of labour	5,372,584	4,769,279	603,305
EBITDA	3,231,572	2,013,603	1,217,969
Amortisation, depreciation, write-downs and other provisions	1,722,335	1,097,964	624,371
EBIT	1,509,237	915,639	593,598
Financial income and expenses	54,746	(376,473)	431,219
Ordinary profit	1,563,983	539,166	1,024,817
Net extraordinary components	59,257	45,132	14,125
Pre-tax result	1,623,240	584,298	1,038,942
Income taxes	621,702	358,954	262,748
Net profit	1,001,538	225,344	776,194

Growth in EBITDA (+60%) with respect to last year was mainly due to the increase in contract work and the capitalisation of R&D costs. Furthermore, operating grants and grants relating to assets increased.

In terms of providing a better description of the company's profits, the table below outlines some profitability ratios, compared with the same ratios relating to the previous year's financial statements.

	31/12/2014	31/12/2013	31/12/2012
Net ROE	0.05	0.04	0.13
Gross ROE	0.09	0.10	0.22
ROI	0.04	0.04	0.09
ROS	0.14	0.09	0.15

Main balance sheet figures

The company's reclassified balance sheet, compared with that of the previous year, is shown below (in Euro):

	31/12/2014	31/12/2013	Change
Net intangible fixed assets	4,639,107	2,462,442	2,176,665
Net tangible fixed assets	670,338	606,110	64,228
Equity investments and other non-current financial assets	8,899,857	6,836,332	2,063,525
Fixed assets	14,209,302	9,904,884	4,304,418
Short-term financial assets	4,153,074	0	4,153,074
Warehouse inventories	1,562,783	476,015	1,086,768
Receivables due from customers	7,113,745	5,819,984	1,293,761
Other receivables	3,886,450	6,049,728	(2,163,278)
Accrued income and prepaid expenses	187,719	169,918	17,801
Short-term operating assets	16,903,771	12,515,645	4,388,126
Trade payables	(1,884,471)	(1,103,820)	(780,651)
Payments on account	(538,058)	(1,524,588)	986,530
Tax and social security payables	(1,689,954)	(917,637)	(772,317)
Other payables	(934,723)	(943,140)	8,417
Accrued expenses and deferred income	(979,232)	(238,118)	(741,114)
Short-term operating liabilities	(6,026,436)	(4,727,303)	(1,299,133)
Net working capital	10,877,335	7,788,342	3,088,993
Employee severance indemnity	(1,126,002)	(948,598)	(177,404)
Tax and social security payables (after 12 months)	0	0	0
Accrued expenses and deferred income after 12 months	(2,361,933)	(3,905,115)	1,543,182
Other medium and long-term liabilities	(3,070,368)	(1,673,769)	(1,396,599)
Medium/long-term liabilities	(6,558,303)	(6,527,482)	(30,821)
Invested capital	18,528,334	11,165,744	7,362,590
Shareholders' equity	(19,347,728)	(5,976,806)	(13,370,922)
Net medium/long-term financial position	(4,798,603)	(5,172,406)	373,803
Net short-term financial position	5,617,997	(16,532)	5,634,529
Own equity and net financial debt	(18,528,334)	(11,165,744)	(7,362,590)

The positive NFP increased to a significant extent with respect to last year and was positively affected by the listing on the ALTERNATIVE CAPITAL MARKET which took place on 18/02/2014.

The reclassified balance sheet highlights the company's capital strength (i.e. its capacity to maintain financial equilibrium over the medium/long-term).

For the purposes of a better description of the company's capital strength, the table below shows certain financial statement ratios relating to both (i) the methods of financing medium/long-term investments and to the (ii) composition of sources of financing, compared to the same financial statement ratios in the previous year.

	31/12/2014	31/12/2013	31/12/2012
Fixed asset /equity margin	5,138,422	(3,928,078)	(759,879)
Fixed asset /equity ratio	1.36	0.60	0.89

Fixed assets / liabilities and equity margin	14,133,396	3,866,695	7,254,157
Fixed assets / liabilities and equity ratio	1.99	1.39	2.08

Capital assets and related fixed assets to equity ratio:

these two indicators are an expression of how the company manages to finance fixed assets.

The Fixed asset/equity margin and its associated ratio, which correlate the value of shareholders' equity with fixed assets (as quantified in the table above), provide us with information on the company's capacity to finance all fixed assets with its own equity.

Fixed asset/equity margin: shareholders' equity - fixed assets
 $(19,347,723 - 14,209,301) = 5,138,422$

Fixed asset / equity ratio:

$19,347,723 / 14,209,301 = 1.36$

The positive result of the fixed asset/equity margin with the correlated ratio higher than one indicates that the company meets its long-term financial commitments without the need for third party financing.

The improvement with respect to the previous years is reflected by the listing transaction on the AIM market with consequent share capital increase which equipped the company with considerable financial means.

The fixed asset / liabilities and equity margin and its related ratio also take as a reference medium/long-term liabilities.

Fixed asset / liabilities and equity margin:

$(SE + net\ long\ term\ financial\ position + medium/long\ term\ liabilities) - FIXED\ ASSETS$

Net long-term financial position	4,798,603
Medium/long-term liabilities	3,070,369
Employee severance indemnity	1,126,002
TOTAL	8,994,974

FIXED ASSETS 14,209,301
 SE 19,347,723

$(19,347,723 + 8,994,974) - 14,209,301 = 14,133,396$

Fixed assets / liabilities and equity ratio

$(SE + net\ long\ term\ financial\ position + medium/long\ term\ liabilities) / fixed\ assets$
 $(19,347,723 + 8,994,974) / 14,209,301 = 1.99$

Main financial figures

The net financial position as at 31/12/2014, was as follows (in Euro):

	31/12/2014	31/12/2013	Change
Bank deposits	4,386,192	2,957,350	1,428,842
Cash at bank and in hand	1,370	1,501	(131)
Treasury shares	89,163	0	89,163
Cash and cash equivalents and treasury shares	4,476,726	2,958,851	1,517,875
Current financial assets	4,081,569	8,400	4,073,169
Bonds and convertible bonds (within 12 months)	0	0	0
Payables due to shareholders for loans (within 12 months)	0	0	0
Payables due to banks (within 12 months)	(2,647,115)	(2,692,311)	45,196
Payables due to other lenders (within 12 months)	(293,183)	(291,472)	(1,711)

Advances for overseas payments	0	0	0
Short-term portion of loans	0	0	0
Financial receivables	0	0	0
Short-term financial payables	(2,940,298)	(2,983,783)	43,485
Net short-term financial position	5,617,997	(16,532)	5,634,529
Bonds and convertible bonds (after 12 months)	0	0	0
Payables due to shareholders for loans (after 12 months)	0	0	0
Payables due to banks (after 12 months)	(4,381,995)	(4,462,615)	80,620
Payables due to other lenders (after 12 months)	(416,608)	(709,791)	293,183
Advances for overseas payments	0	0	0
Long-term portion of loans	0	0	0
Financial receivables	0	0	0
Net medium/long-term financial position	(4,798,603)	(5,172,406)	373,803
Net financial position	819,394	(5,188,938)	6,008,332

For a better description of the financial situation, the following table shows some financial statement ratios, compared with the same financial statement ratios in the previous year.

The company's net financial position was positively impacted by the listing on the ALTERNATIVE CAPITAL MARKET on 18/02/2014

	31/12/2014	31/12/2013	31/12/2012
Primary liquidity	2.67	1.95	2.19
Secondary liquidity	2.84	2.01	2.32
Debt	0.87	2.53	2.22
Rate of coverage of fixed assets	1.98	1.37	2.06

The primary liquidity ratio comes to 2.67. The company's financial situation can be considered as satisfactory.

Primary liquidity

LIQUID ASSETS:

cash and bank current account balances:

C) IV € 4,387,562

DEFERRED ASSETS:

Receivables and financial assets

C) II 1) receivables	7,113,745
C) II 2) within 12 months	1,312,097
C) II 4 bis) within 12 months	30,768
C) II 4 ter) within 12 months	6,784
C II 5) within 12 months	2,536,801
C III	8,323,806
D	187,719
TOTAL DEFERRED ASSETS	19,511,720

CURRENT LIABILITIES:

D 4) WITHIN 12 MONTHS	2,647,115
D 5) WITHIN 12 MONTHS	293,183
D 6) WITHIN 12 MONTHS	538,058
D 7) WITHIN 12 MONTHS	1,884,471
D 12) WITHIN 12 MONTHS	1,454,606

D 13) WITHIN 12 MONTHS	235,348
D 14) WITHIN 12 MONTHS	934,723
ACCRUED EXPENSES AND DEFERRED INCOME – PORTION WITHIN 12 MONTHS	979,232
TOTAL CURRENT LIABILITIES	8,966,736

The formulae are shown below

Primary liquidity:

$(La+DI) / Cl$

$(4,387,562 + 19,511,720) / 8,966,736 = 2.67$

The primary liquidity ratio stands at 2.67, highlighting an excellent balance between current assets and current liabilities.

Secondary liquidity

CA (including inventory) / CP

$(19,511,720 + 4,387,562 + 1,562,783) / 8,966,736 = 2.84$

The secondary liquidity ratio stands at 2.84, also due to the effect of receivables for research project grants and the reclassification of the equity investment in Admantx Spa under current assets, presenting a satisfactory value.

Debt ratio

Third party financing/net capital

THIRD PARTY FINANCING	
Current liabilities (without accruals and deferrals)	7,987,504
MEDIUM/LONG-TERM LIABILITIES	
D 4) AFTER 12 MONTHS	4,381,995
D 5) AFTER 12 MONTHS	416,608
D 6) AFTER 12 MONTHS	2,828,137
D 9) DUE TO SUBSIDIARIES	1,248
B) PROVISIONS FOR RISKS AND CHARGES	240,984
C) EMPLOYEE SEVERANCE INDEMNITY	1,126,002
TOTAL MEDIUM/LONG-TERM LIABILITIES	8,994,974
TOTAL THIRD PARTY FINANCING	16,982,478

Third party financing: = 16,982,478

Net capital = 19,347,723

Debt ratio = $16,892,478 / 19,347,723 = 0.88$

The debt ratio highlights the existing ratio of third party funds to own capital. It makes it possible to verify the risk connected with the company's level of dependency on external sources of financing. A high level of debt with respect to own capital, on a trend basis, increases the business risk due to a lower degree of capital coverage of potential company losses and due to a higher weight of financial expenses deriving from the use of third party funds. A ratio of 0.88 indicates a low level of company risk.

Rate of coverage of fixed assets

$(NC+m/l) / \text{fixed assets}$

Net capital = NC = 19,347,723

Medium/long-term liab. = 8,994,974

fixed assets = 14,209,301

$(19,347,723 + 8,994,974) / 14,209,301 = 1.99$

In light of the rate of coverage of fixed assets of 1.99, the amount of own equity and consolidated payables is considered appropriate in relation to the amount of fixed assets. This translates to a more liquid situation compared to the previous year.

The secondary liquidity ratio comes to 2.84. The value adopted by the net working capital is without doubt satisfactory in relation to the amount of the current payables.

The debt ratio comes to 0.88. The amount of the payables should be considered as appropriate.

In light of the rate of coverage of fixed assets of 1.99, the amount of own equity and consolidated payables is considered appropriate in relation to the amount of fixed assets. Own equity together with consolidated payables should be considered to be appropriate in terms of amount in relation to the amount of the fixed assets.

Information on the environment and personnel

Taking into account the company's social role, as also outlined in the document on the report on operations of the Consiglio Nazionale dei Dottori commercialisti e degli Esperti Contabili (National Institute of Chartered Accountants), it is deemed appropriate to provide the following information on the environment and on personnel.

Personnel

No workplace fatalities of personnel recorded in the company's employee register were recorded during the year. During the year, no serious workplace accidents occurred which caused serious or very serious injuries to personnel recorded in the company's employee register.

During the year, no occurrences of occupational diseases were reported with regard to employees or former employees or any cases of mobbing, in relation to which the company was declared as definitively responsible. During the year, the company made investments in personnel safety in compliance with Italian Legislative Decree 81/08. In fact, all personnel were trained on the safety of workers and supervisors. In addition, refresher courses were also provided to first aid personnel and members of the fire safety team.

The Environment

No environmental damage was recorded during the year, for which the company was held to be definitively at fault.

No definitive sanctions or penalties were imposed on our company during the year for environmental offences or damages.

On 30/06/2008, the company obtained ISO certification 9001:2008, whose revision performed on 02/07/2014 is valid until 01/07/2017.

Investments

Investments were made in the following areas during the year:

Fixed assets	Acquisitions during the year
Land and buildings	(1)
Plant and machinery	25,941
Industrial and commercial equipment	
Other assets	176,853

During the current year, particularly significant investments are envisaged in terms of the implementation of the ERP (Enterprise Resource Planning) integrated management system which is able to not only handle the information but also to create a model with functions or processes which reflect the enterprise permitting total control and consequently increasing the efficiency, thereby decreasing the business costs.

Research and development activities

Pursuant to art. 2428.2.1 of the Italian Civil Code, the following information is acknowledged:

The company is constantly conducting research and development activities so as to maintain its global leadership position in the field of semantic technology. The costs incurred for these activities are partly capitalised and partly charged directly, also in the context of certain multi-year national and international research projects the company is involved in. These activities concerned the development of the Cogito linguistics platform and connected functions, in particular, the Cogito platform for Spanish and German; further development of the advanced product Cogito Taxonomy Studio was also implemented, which integrates self-learning and cognitive computing technologies, and Cogito API was created, which will be launched in the first half of 2015.

Other significant areas of research in the period included self-learning regarding relationships between entities, improvement in the understanding of the tone and sense of texts (particularly of a social nature) and of the automatic generation of categorisation rules for the reduction of development costs for projects created with Cogito Studio.

Relations with subsidiaries, associates, parent companies and sister companies

During the year, the following transactions took place with group companies.

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
ADMANTX SPA	-		86,797	127,537	79,331	104,539
EXPERT SYSTEM USA INC	-	1,389,949	1,657,009	-	478,344	-
EXPERT SYSTEM LTD	-	45,010		-	75	-
CY4GATE SRL	-	-		-	2,788,800	-
EXPERT SYSTEM IBERIA S.L.U.		700,000				
Total	-	2,127,959	1,743,806	127,537	3,346,550	104,539

These relations, which do not include atypical and/or unusual transactions, are regulated by normal market conditions.

In particular, relations are shown analytically below, with an indication of the reasons and interests whose evaluation affected the decision.

Trade and sundry transactions

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
ADMANTX SPA	127,537	86,797	-	-	104,539	79,331
EXPERT SYSTEM USA INC	-	1,657,009	-	-	-	452,389
EXPERT SYSTEM LTD	-		-	-	-	-
CY4GATE SRL	-		-	-	-	2,788,800
Total	127,537	1,743,806			104,539	3,320,520

Financial transactions

Company	Payables	Receivables	Guarantees	Commitments	Expenses	Income
ADMANTX SPA	-	-	-	-	-	-
EXPERT SYSTEM USA INC	-	1,389,949	-	-	-	25,955
EXPERT SYSTEM LTD	-	45,010	-	-	-	75
CY4GATE SRL	-	-	-	-	-	-
EXPERT SYSTEM IBERIA S.L.U.		700,000				
Total	-	2,127,959	-	-	-	26,029

These relations, which do not include atypical and/or unusual transactions, are regulated by normal market conditions. Indication of the reasons and interests whose assessment has affected the main decisions adopted, also in consideration of the interests of the related group, are presented below.

With the subsidiary Admantx Spa:

Sales

1) Lease agreement for property in Naples, Via nuova Poggio Reale, Centro Polifunzionale Inail (Inail – National Institute for Insurance against Accidents at Work - Multi-purpose centre), where the company has its registered office: annual fee of € 5,083.00;

sub-letting agreement for local office in Modena, Via Virgilio 56/Q: annual fee of € 3,677.00;

services contract relating to accounting support, company economic-financial consultancy, secretary and general services:

fee for accounting support and company consultancy € 20,000 per annum;

fee for secretarial activities € 1,200 per annum;

fee for general services (telephone, cleaning services and material, security, electricity, stationery, management software maintenance): forfeit reimbursement for 4.15% of the costs incurred by Expert System Spa;

Contract for technical consultancy: € 6,291.95

Contract for strategic consultancy: € 36,000.00

The balance sheet items affected by these contracts are intercompany customers.

The income statement items are reclassified within the following accounts:

A5) other revenues and income

Purchases

Marketing consultancy contract: € 46,809.89

The balance sheet items affected by this contract are trade payables.

The income statement items are reclassified within the following accounts:

B) 7) service costs

Commercial activity contract: € 29,288.34

The balance sheet items affected by this contract are trade payables.

The income statement items are reclassified within the following accounts:

B) 7) service costs

Contract for technical consultancy activities: € 28,440.67

The balance sheet items affected by this contract are trade payables.

The income statement items are reclassified within the following accounts:

B) 7) service costs

With the subsidiary Expert System USA Inc.:

professional service activities performed for the subsidiary, concessions of licences and granting of loans.

The balance sheet item affected by these transactions is "customers for invoices to be issued amounting to € 478,344" reclassified to the item C) II 2) "Receivables due from subsidiaries";

The income statement items affected by these transactions are:

- "Interest income from subsidiary Expert System USA Inc" reclassified to the item C) 16) d) for € 25,954;
- "Services provided" reclassified in the item A) 1 for a total of € 210,366;
- "Hosting fees" reclassified in the item A) 1 for a total of € 242,023.

With the subsidiary Expert System Cogito Ltd:

granting of a loan

The balance sheet item affected by this transaction is "customers for invoices to be issued amounting to € 75" reclassified to the item C) II 2) "Receivables due from subsidiaries";

The income statement item affected by this transaction is:

- "Interest income from subsidiary Expert System USA Inc" reclassified to the item C) 16) d) for € 75

With the associate Cy4gate Srl:

concessions of licences in favour of the associate

The balance sheet item affected by this contract is "Receivables due from customers" reclassified to the item C) II; The income statement items affected by this contract are:

"revenues from sales of licences" reclassified in the item A) 1 for a total of € 2,788,800.00.

Treasury shares and shares/holdings in parent companies

Direct or indirect ownership of treasury shares is illustrated below in detail.

Description	No. held	Market price	Share capital (%)	
Treasury shares	47,000	1.8908	0.21%	

Shares/holdings purchased	No.	Market price	Share capital (%)	Consideration
Treasury shares	47,000	1.8908	0.21%	89,162

Shares/holdings sold	No.	Market price	Share capital (%)	Consideration
Treasury shares	-	-	-	-

The purchases and disposals are justified as follows:

endow the Company with a system by means of which it will have the possibility to carry out transactions in its own interests, with the main aim - and by way of example - of supporting - possibly also via a qualified intermediary - the liquidity of the stock so as to encourage the due performance of the related trading and/or establish - possibly also via a qualified intermediary - a securities portfolio to be used within the sphere of extraordinary transactions as a possible means of payment and/or exchange of equity investments and/or other assets, also via exchange, conferral or assignment of Shares, or, in order to meet the obligations deriving from any programmes for the distribution of options on shares or of shares to directors, co-workers or employees of the Company, as well as to fulfil any programmes for the bonus assignment of shares to shareholders or other purposes associated or linked to the same.

Significant events after the close of the year

On 26 May 2015, the BoD resolved the acquisition of Temis, a company which has a strong presence in France, Germany, the UK and the USA and which boasts technology for Big Data in the Media and Publishing, Healthcare and Intelligence sectors which also includes a number of semantic solutions developed ad hoc by said Temis.

As a result of the Temis Acquisition Transaction and the investments aimed at creating synergies and integrations between the Expert Group, Temis and the investee companies of the latter, it is envisaged that Expert System may

become the main European operator in its reference sector endowing itself, among other aspects, with additional managerial abilities difficult to find on the market.

Business outlook

The intention is to strengthen an increasingly more consistent effort on overseas markets, in particular in the US and North American markets; in fact, the personnel hiring process continued, as did the process of technological product development and of commercial and business development, in view of the implementation of the business plan, but also for the extension of strategic synergies with large companies.

In the European field, the establishment of the UK branch Expert System Cogito Ltd and the hiring of staff *in situ* will make it possible to continue penetration of northern European markets, while via the Spanish company Expert System Iberia the intention is to launch new commercial dealings in South America.

With regard to the domestic market, attention is being focused on consolidation of existing economic dealings, together with a continual and increasingly greater investment in the development of the business technology.

In the Middle Eastern market, the company is aiming to expand strategic partnerships already established in the last few months, to expand its offering to new entities not in the commercial pipeline.

Allocation of profit for the year

It is proposed that the shareholders' meeting allocate the profit for the year as follows:

Profit for the year as at 31/12/2014	Euro	1,001,538
to the legal reserve	Euro	3,832
to the exchange adjustment reserve	Euro	217,282
to the extraordinary reserve	Euro	780,424

We thank you for the confidence shown in us and invite you to approve the financial statements presented here.

Chairman of the Board of Directors
Marco Varone



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